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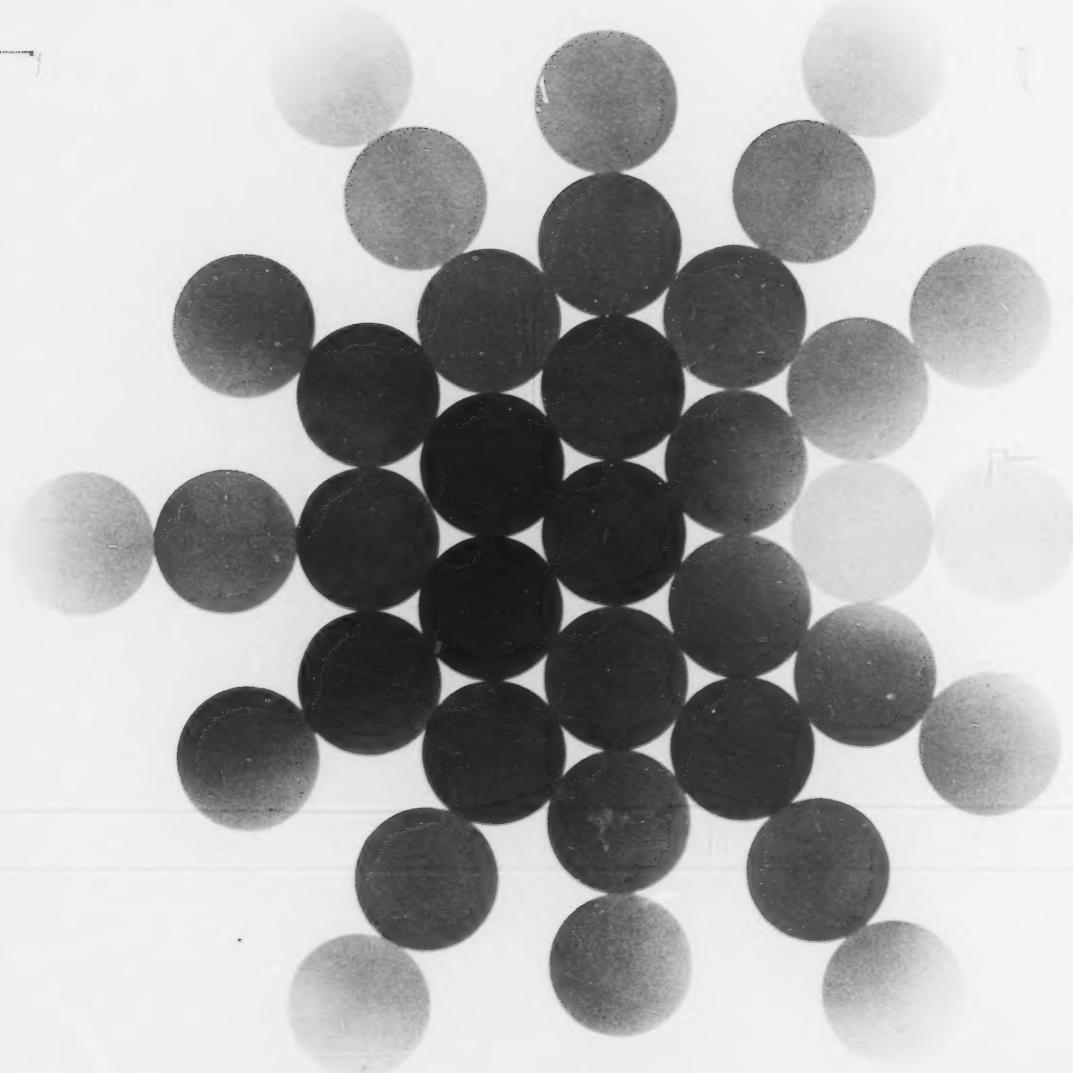

1983 NACDS-LILLY DIGEST—A Survey of Chain Pharmacy Operations for 1982

A summary of the 1982 operations of
1,228 chain pharmacies

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Foreword

The NACDS-LILLY DIGEST is an annual publication that summarizes detailed financial and operating statistics of chain pharmacies. The primary purpose of the DIGEST is to provide useful information about the chain pharmacy industry with which a pharmacy manager can compare and evaluate an individual unit's performance. This thirteenth edition contains data from 1,228 individual pharmacy units that are members of chain firms with at least four stores.

The section entitled "Chain Pharmacy Operations—1982" on pages 4 and 5 offers an overview of the industry.

The "Heart of the NACDS-LILLY DIGEST" (pages 21 through 27) is the "working section" of the DIGEST, which presents average operating data based on total annual sales and daily prescription activity. This section is designed to permit evaluations of chain units at various levels of sales and prescription activity. Financial and operating information is also summarized according to geographic region, pharmacy location, and chain-firm size with the intention of furnishing additional means of assessing a given store's performance.

Eli Lilly and Company is pleased to provide this publication for the chain industry. It is through the cooperative effort of the National Association of Chain Drug Stores, Inc., its board of directors, and, in particular, the participating members that this edition is presented.

Acknowledgment

The National Association of Chain Drug Stores, Inc., is again pleased to participate in the publication of the NACDS-LILLY DIGEST. *The* DIGEST *continues to be a valuable financial management tool and has been widely accepted as an accurate and comprehensive report of the chain store industry.*

Robert J. Bolger, *President*
National Association of Chain Drug Stores, Inc.

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Chain Pharmacy Operations 1982

Again, in 1982, the average NACDS-LILLY DIGEST pharmacy reported increased sales; however, the number of prescriptions dispensed declined slightly from the previous year. Since the increase in sales volume was accompanied by a lower cost-of-goods-sold percentage, the gross margin rose to 28.8% of sales—the second highest gross margin percentage in DIGEST history. Total expenses climbed slightly in dollars but, as a percent of sales, fell to the lowest level in eight years, with the result that net profit improved dramatically over the 1981 figure (up from 3.6% to 5.4% of sales).

A total of 1,228 pharmacy units submitting 1982 operating data for this DIGEST established another new record for average total sales of $1,962,217. This represented a 7.6% increase over 1981 revenue, which was somewhat lower than the average annual growth rate of 8.6% during the past decade.

Prescription income rose to 21.5% of total sales—the highest level in more than ten years, and up from 20% recorded during 1981. Because the total number of prescriptions dispensed was slightly lower than that reported the previous year, the improvement in prescription sales was due to the $1.31 rise in the average prescription charge (from $8.31 to $9.62). Prescription sales per square foot declined to $944.39, while productivity for the nonprescription area increased almost 14% to $178.35 per square foot. Total sales per square foot showed a 13.4% gain over the 1981 figure, the result of increased sales and a 1.5% reduction in floor area.

The total wage package (manager's salary plus employees' wages) typically represents the greatest portion of total expenses. During 1982, this operating expense fell to 10.5% of sales—down from 11.1% in 1981. This was the lowest total-wage-package figure ever reported in the NACDS-LILLY DIGEST. Of the components that make up the total wage package, manager's salary, although higher in dollars, remained the same as a percent of sales. Employees' wages, however, declined dramatically to 9.0% of sales—the lowest figure in DIGEST history. This reduction may be due, in large part, to the decreased number of hours the average store was open during 1982 (down from 86 to 81 hours per week).

Miscellaneous operating expenses (those within the braces in Table 1) showed a net decline in dollars and a 1% reduction when compared with the earlier year's figure—moving from 11.3% of sales in 1981 to 10.3% during 1982. This was the first time in almost a decade that miscellaneous operating costs declined percentagewise from the previous year and the first time in DIGEST history that miscellaneous operating expenses were lower dollarwise. The overall decline in miscellaneous operating costs resulted from lower expenditures for utilities, insurance, repairs, supplies, and headquarters fee, which more than offset the rise in advertising, depreciation, and all other direct store expenses.

Rent advanced 0.1% to 2.6% of sales for 1982. Dollarwise, chain stores posted an 8.2% increase in rental expense over the previous year. The average rental rate rose to $5.41 per square foot as compared with $4.93 in 1981.

The average floor area per unit decreased 1.5%, or 138 square feet, to 9,248 square feet in 1982. The prescription department added over 22% more space during 1982, whereas the nonprescription area was reduced by 215 square feet. Sales generated from the available floor area continued the overall upward trend in total sales per square foot that began in the early 1970's. The 1982 figure ($213.61) is $25.21 more than previously reported.

The total value of inventory advanced only 1.3% dollarwise but declined as a percent of sales, from 15.1% to 14.2% during 1982. As a result, inventory turnover increased to 5.2 times. Sales per dollar invested in prescription inventory rose 0.6% to $11.44, up from $11.37 the previous year. Sales per dollar of nonprescription merchandise increased 6.0% to $6.37 from $6.01 reported for 1981.

Prescription activity retreated slightly from the level reported in last year's NACDS-LILLY DIGEST. The number of prescriptions dispensed totaled 43,780, an 0.5% decrease from the 1981 figure. The ratio of new prescriptions to total prescriptions declined from 54.2% to 52.3%, whereas the ratio of renewed prescriptions rose from 45.8% to 47.7%. The increase in renewals was not enough to offset the lower number of new prescriptions, with the result that overall activity was reduced by 221 prescriptions. The average prescription charge increased 15.8% during 1982, from $8.31 to $9.62.

TABLE 1

Current trends in chain pharmacy operations

AVERAGES PER PHARMACY	1982 (1,228 Pharmacies)	1981 (1,601 Pharmacies)	Amount and Percent of Change
Sales			
Prescription	$ 421,149— 21.5%	$ 365,680— 20.0%	+$ 55,469—15.2%
Other	1,541,068— 78.5%	1,458,459— 80.0%	+$ 82,609— 5.7%
Total	$1,962,217—100.0%	$1,824,139—100.0%	+$138,078— 7.6%
Cost of goods sold	1,397,909— 71.2%	1,305,059— 71.5%	+$ 92,850— 7.1%
Gross margin	$ 564,308— 28.8%	$ 519,080— 28.5%	+$ 45,228— 8.7%
Expenses			
Manager's salary	$ 30,312— 1.5%	$ 27,753— 1.5%	+$ 2,559— 9.2%
Employees' wages	177,252— 9.0%	175,036— 9.6%	+$ 2,216— 1.3%
Rent	50,049— 2.6%	46,268— 2.5%	+$ 3,781— 8.2%
Utilities (including telephone)	21,569— 1.1%	22,123— 1.2%	−$ 554— 2.5%
Insurance, licenses, and taxes (except on profit)	29,780— 1.5%	33,396— 1.9%	−$ 3,616—10.8%
Repairs	6,307— 0.3%	7,554— 0.4%	−$ 1,247—16.5%
Advertising	33,049— 1.7%	31,498— 1.7%	+$ 1,551— 4.9%
Depreciation (except on buildings)	11,742— 0.6%	11,098— 0.6%	+$ 644— 5.8%
Supplies	10,316— 0.5%	10,480— 0.6%	−$ 164— 1.6%
Headquarters fee	55,644— 2.9%	55,932— 3.1%	−$ 288— 0.5%
All other direct store expenses	32,682— 1.7%	31,593— 1.8%	+$ 1,089— 3.4%
	10.3%	11.3%	
Total expenses	$ 458,702— 23.4%	$ 452,731— 24.9%	+$ 5,971— 1.3%
Net profit (before taxes)	$ 105,606— 5.4%	$ 66,349— 3.6%	+$ 39,257—59.2%
Warehouse fee*	$ 23,857— 2.3%	$ 25,155— 2.4%	−$ 1,298— 5.2%
As a percent of cost of goods sold	3.2%	3.4%	
Value of inventory at cost and as a percent of sales			
Prescription	$ 36,805— 8.7%	$ 32,172— 8.8%	+$ 4,633—14.4%
Other	241,856— 15.7%	242,861— 16.7%	−$ 1,005— 0.4%
Total	$ 278,661— 14.2%	$ 275,033— 15.1%	+$ 3,628— 1.3%
Annual rate of turnover of inventory	5.2 times	4.8 times	
Size of area*	sq. ft.	sq. ft.	
Prescription	426— 4.6%	349— 3.7%	+ 77—22.1%
Other	8,822— 95.4%	9,037— 96.3%	− 215— 2.4%
Total	9,248—100.0%	9,386—100.0%	− 138— 1.5%
Sales per square foot*			
Prescription	$944.39	$1,008.35	−$ 63.96— 6.3%
Other	178.35	156.75	+$ 21.60—13.8%
Total	213.61	188.40	+$ 25.21—13.4%
Sales per dollar invested in inventory			
Prescription	$11.44	$11.37	+$ 0.07— 0.6%
Other	6.37	6.01	+$ 0.36— 6.0%
Net profit per dollar invested in inventory	$0.379	$0.241	+$ 0.138—57.2%
Number of prescriptions dispensed			
New	22,903— 52.3%	23,859— 54.2%	− 956— 4.0%
Renewed	20,877— 47.7%	20,142— 45.8%	+ 735— 3.6%
Total	43,780—100.0%	44,001—100.0%	− 221— 0.5%
Prescription charge	$9.62	$8.31	+$ 1.31—15.8%
Number of hours per week			
Pharmacy was open	81 hours	86 hours	− 5— 5.8%
Worked by manager	46 hours	46 hours	no change
Worked by employed pharmacist(s)	72 hours	82 hours	− 10—12.2%

*Based on averages of pharmacies that reported all data

Sales and Expenses

A major objective of pharmacy management is to increase sales volume. However, businesses that hope to achieve long-term success must also be concerned with maximizing profit and return on investment by controlling operating expenses and merchandise costs.

Chart 1 and Table 2 illustrate how selected operating statistics vary with growing sales volume. It should be recognized that a pharmacy's financial data may be influenced by the characteristics of the individual unit, which, in turn, may have an impact on these figures. NACDS-LILLY DIGEST averages are adjusted to exclude refunds, sales tax collections, allowances to customers, and returns. The cost of goods sold is adjusted for discounts received, warehouse fees, and freight charges.

Chart 1, an illustration of the statistics in Table 2, shows that as total sales rise, gross margin and total expenses decline as a percent of sales. However, the decline in total expenses occurs at a faster rate than does gross margin, with the result that net profit is larger for stores with greater volume. Net profit (gross margin less total expenses) is represented in Chart 1 by the shaded area. As previously reported, larger operations were generally more profitable than smaller ones as a result of "economies of scale" in the various operating costs.

The chain drugstore units with sales volume under $500,000 may represent diverse types of operations. The pharmacies in this category usually include newly opened stores and/or outlets that are in the early stages of development and have not yet reached their full sales potential. On the other hand, established units in this group could be experiencing losses due to changing markets or competition; therefore, the future prospects for these stores should be thoroughly appraised and evaluated with an eye to relocation.

Gross Margin

Table 2 also indicates that, as total sales increase, gross margin drops from 33.9% in the lowest sales range (under $500,000) to 27.3% when sales exceed $3,000,000. It has been suggested that the decline in gross margin percentage may be the result of the gradual reduction in the ratio of prescription sales to total sales as volume advances. Table 2 supports this assertion as the data show how prescription income, as a percent of sales, falls from 57.3% in units with sales under $500,000 to 14.4% in stores with annual revenue in excess of $3,000,000.

Pharmacies with greater sales volume also report higher inventory turnover rates. Higher turnover usually results in reduced storage space, better cash flow, and less dependence on debt. It appears that in operations with greater sales volume, management allows more leeway to accept lower-margin sales where inventory turnover is sufficiently high and expenses are adequately controlled, as long as the goals for return on investment are achieved. It is also likely that units with greater sales volume are located in markets characterized by intense price competition. This, too, may have an effect on the gross margin level.

Expenses

Total expenses fell from 36.9% in stores with sales less than $500,000 to 19.7% in pharmacies reporting over $3,000,000 (Table 2). Primarily responsible for this downtrend is the total wage package (manager's salary plus employees' wages). Increased employee productivity is evident when the wage package decreases from 18.8 to 9.1% of sales. As a result, net profit is highest in the largest sales category—7.6% of total sales before taxes.

Miscellaneous operating expenses (all costs except manager's salary, employees' wages, and rent) declined from 13.2% of sales in the $500,000 to $750,000 sales group to 8.4% in the highest. With advancing sales volume, greater productivity was realized in these expense items through "economies of scale." This relationship illustrates the need for constant monitoring of the various items included in miscellaneous operating costs, since, collectively, they have a significant impact on net profit.

CHART

1

Selected operating statistics according to sales volume

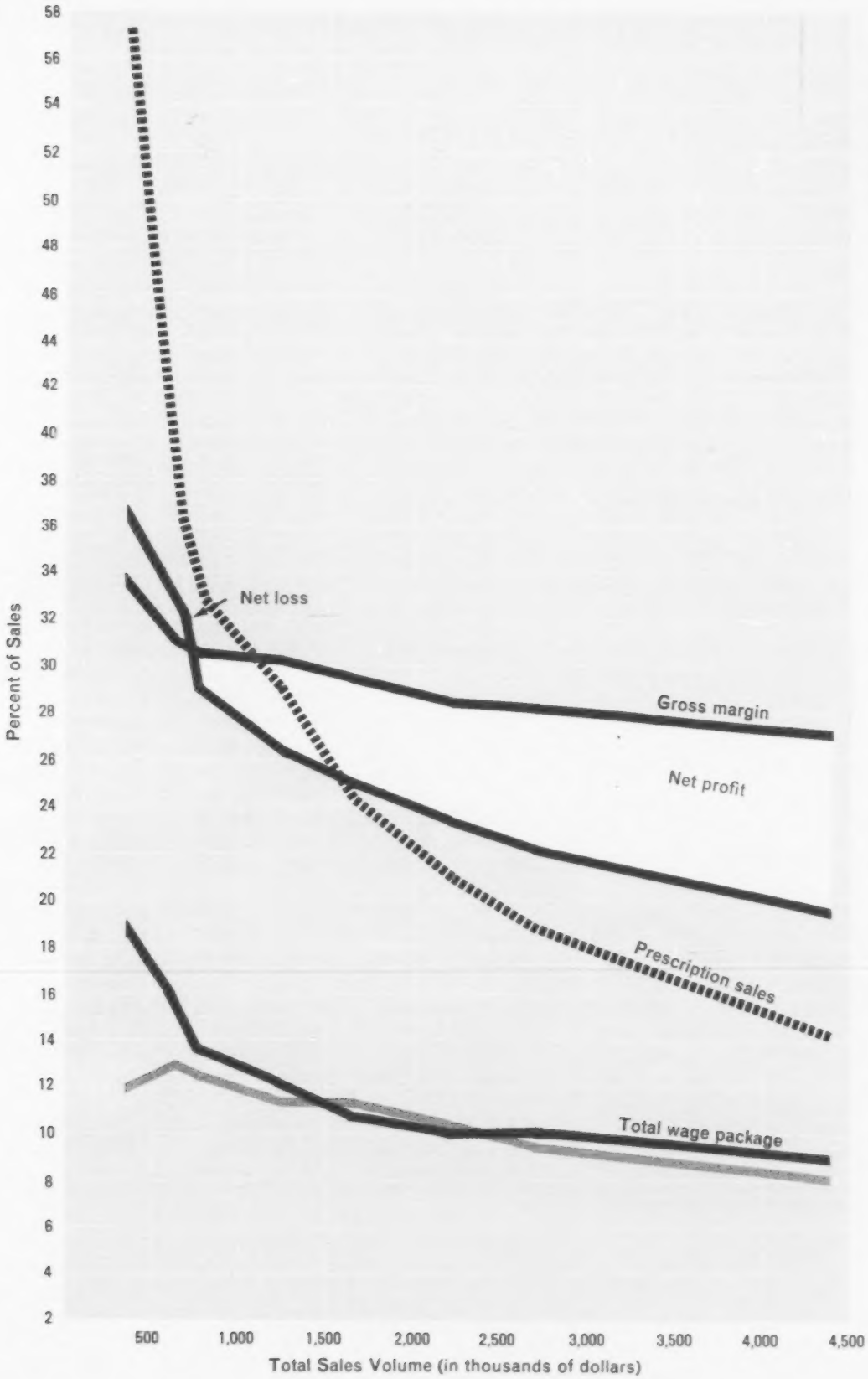


TABLE 2 Chain operations according to sales volume

AVERAGES PER PHARMACY	Total Sales under $500,000 (74 Pharmacies)	Total Sales $500,000 to $750,000 (72 Pharmacies)	Total Sales $750,000 to $1,000,000 (133 Pharmacies)
Sales			
Prescription	$201,065— 57.3%	$238,060— 36.6%	$292,382— 33.1%
Other	150,134— 42.7%	412,488— 63.4%	592,233— 66.9%
Total	$351,199—100.0%	$650,548—100.0%	$884,615—100.0%
Cost of goods sold	232,198— 66.1%	448,434— 68.9%	612,331— 69.2%
Gross margin	$119,001— 33.9%	$202,114— 31.1%	$272,284— 30.8%
Expenses			
Manager's salary	$ 27,348— 7.8%	$ 28,624— 4.4%	$ 28,226— 3.2%
Employees' wages	38,572— 11.0%	74,018— 11.4%	92,938— 10.5%
Rent	21,398— 6.1%	24,588— 3.8%	26,388— 3.0%
Utilities (including telephone)	4,364— 1.2%	10,680— 1.6%	12,808— 1.4%
Insurance, licenses, and taxes (except on profit)	4,482— 1.3%	11,792— 1.8%	16,676— 1.9%
Repairs	787— 0.2%	2,317— 0.4%	3,419— 0.4%
Advertising	5,769— 1.6%	14,186— 2.2%	18,560— 2.1%
Depreciation (except on buildings)	2,607— 0.8% 12.0%	5,906— 0.9% 13.2%	6,700— 0.8% 12.5%
Supplies	1,806— 0.5%	4,252— 0.6%	5,530— 0.6%
Headquarters fee	13,219— 3.8%	23,853— 3.7%	29,031— 3.3%
All other direct store expenses	9,064— 2.6%	13,109— 2.0%	17,375— 2.0%
Total expenses	$129,416— 36.9%	$213,325— 32.8%	$257,651— 29.2%
Net profit (before taxes)	($ 10,415— 3.0%)	($ 11,211— 1.7%)	$ 14,633— 1.6%
Value of inventory at cost and as a percent of sales			
Prescription	$ 34,592— 17.2%	$ 30,487— 12.8%	$ 32,106— 11.0%
Other	74,631— 49.7%	113,972— 27.6%	136,828— 23.1%
Total	$109,223— 31.1%	$144,459— 22.2%	$168,934— 19.1%
Annual rate of turnover of inventory	2.2 times	3.2 times	3.7 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	274 $541.45	444 $451.48	367 $765.30
Other	3,497 54.27	5,452 83.03	6,475 93.03
Total	3,771 89.64	5,896 110.74	6,842 129.10
Sales per dollar invested in inventory			
Prescription	$5.81	$7.81	$9.11
Other	2.01	3.62	4.33
Net profit per dollar invested in inventory	($0.100)	($0.080)	$0.090
Number of prescriptions dispensed			
New	9,546— 48.9%	11,877— 49.3%	14,837— 49.4%
Renewed	9,972— 51.1%	12,237— 50.7%	15,204— 50.6%
Total	19,518—100.0%	24,114—100.0%	30,041—100.0%
Prescription charge	$10.30	$9.87	$9.73
Number of hours per week			
Pharmacy was open	61 hours	74 hours	76 hours
Worked by manager	46 hours	46 hours	46 hours
Worked by employed pharmacist(s)	24 hours	45 hours	54 hours

*Based on averages of pharmacies that reported all data

Total Sales $1,000,000 to $1,500,000 (259 Pharmacies)	Total Sales $1,500,000 to $2,000,000 (223 Pharmacies)	Total Sales $2,000,000 to $2,500,000 (159 Pharmacies)	Total Sales $2,500,000 to $3,000,000 (123 Pharmacies)	Total Sales over $3,000,000 (185 Pharmacies)
$ 366,731— 29.3%	$ 423,887— 24.6%	$ 476,656— 21.3%	$ 512,379— 18.8%	$ 637,539— 14.4%
883,732— 70.7%	1,302,433— 75.4%	1,758,405— 78.7%	2,207,083— 81.2%	3,797,125— 85.6%
$1,250,463—100.0%	$1,726,320—100.0%	$2,235,061—100.0%	$2,719,462—100.0%	$4,434,664—100.0%
868,492— 69.5%	1,213,595— 70.3%	1,593,011— 71.3%	1,953,055— 71.8%	3,225,062— 72.7%
$ 381,971— 30.5%	$ 512,725— 29.7%	$ 642,050— 28.7%	$ 766,407— 28.2%	$1,209,602— 27.3%
$ 27,324— 2.2%	$ 28,356— 1.6%	$ 30,480— 1.4%	$ 28,866— 1.1%	$ 41,010— 0.9%
124,730— 10.0%	161,692— 9.4%	201,758— 9.0%	242,302— 8.9%	361,491— 8.2%
32,383— 2.6%	45,473— 2.6%	59,890— 2.7%	66,809— 2.5%	99,074— 2.2%
15,285— 1.2%	21,148— 1.2%	25,575— 1.2%	29,660— 1.1%	39,470— 0.9%
21,609— 1.7%	27,717— 1.6%	34,372— 1.5%	36,403— 1.3%	61,900— 1.4%
4,539— 0.3%	6,227— 0.4%	7,577— 0.3%	7,354— 0.3%	12,931— 0.3%
24,964— 2.0%	34,797— 2.0%	39,804— 1.8%	39,992— 1.5%	60,506— 1.4%
6,488— 0.5%	9,642— 0.6%	12,951— 0.6%	15,346— 0.6%	27,744— 0.6%
6,993— 0.6%	9,289— 0.5%	12,028— 0.5%	14,832— 0.5%	20,939— 0.5%
45,033— 3.6%	59,807— 3.5%	67,658— 3.0%	74,808— 2.7%	90,889— 2.0%
21,435— 1.7%	31,372— 1.8%	39,258— 1.8%	52,252— 1.9%	59,414— 1.3%
11.6%	11.6%	10.7%	9.9%	8.4%
$ 330,783— 26.4%	$ 435,520— 25.2%	$ 531,351— 23.8%	$ 608,624— 22.4%	$ 875,368— 19.7%
$ 51,188— 4.1%	$ 77,205— 4.5%	$ 110,699— 4.9%	$ 157,783— 5.8%	$ 334,234— 7.6%
$ 34,316— 9.4%	$ 36,666— 8.6%	$ 39,223— 8.2%	$ 38,871— 7.6%	$ 43,730— 6.9%
170,208— 19.3%	228,892— 17.6%	280,634— 16.0%	308,683— 14.0%	472,194— 12.4%
$ 204,524— 16.4%	$ 265,558— 15.4%	$ 319,857— 14.3%	$ 347,554— 12.8%	$ 515,924— 11.6%
4.4 times	4.7 times	5.2 times	5.8 times	6.5 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
399 $889.62	451 $897.45	460 $995.37	459 $1,075.75	474 $1,309.31
7,238 122.91	8,238 159.74	10,280 174.15	10,064 221.27	14,607 270.03
7,637 162.92	8,689 198.02	10,740 209.31	10,523 258.56	15,081 302.69
$10.69	$11.56	$12.15	$13.18	$14.58
5.19	5.69	6.27	7.15	8.04
$0.250	$0.290	$0.350	$0.450	$0.650
18,907— 50.0%	22,637— 51.1%	26,823— 53.1%	28,835— 53.2%	36,935— 55.9%
18,906— 50.0%	21,670— 48.9%	23,695— 46.9%	25,356— 46.8%	29,085— 44.1%
37,813—100.0%	44,307—100.0%	50,518—100.0%	54,191—100.0%	66,020—100.0%
$9.70	$9.57	$9.44	$9.46	$9.66
81 hours	83 hours	83 hours	85 hours	85 hours
46 hours	46 hours	46 hours	45 hours	47 hours
67 hours	72 hours	80 hours	87 hours	98 hours

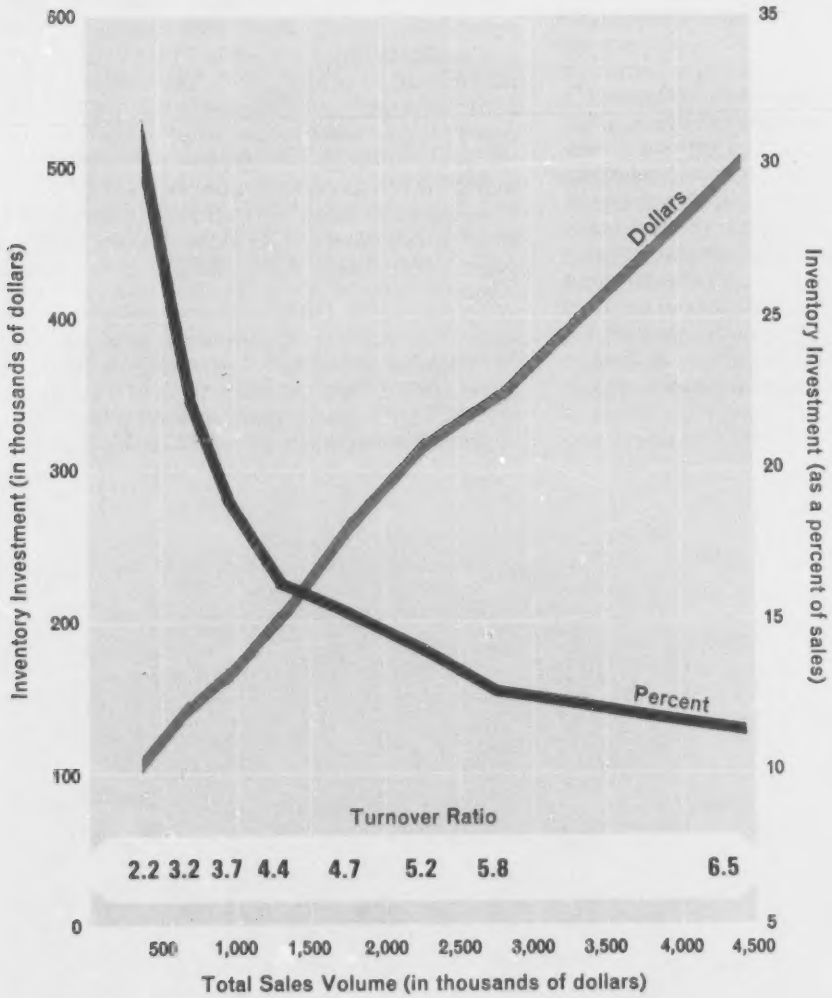
Rental expense generally declined from 6.1% of sales in the lowest sales category to 2.2% in the highest. This trend suggests the relatively fixed nature of the rental expenditure. In dollars, the average rental cost moved upward from over $21,000 to just over $99,000 as sales increased. A more detailed analysis of rental expense appears in the section entitled "Rent Review" on pages 30 and 31 and may serve as a helpful reference.

Inventory Control

A major asset that lends itself to managerial control is inventory. Effective utilization of inventory is required to obtain maximum return on investment. Inventory represents the largest dollar asset that is directly affected by daily management decisions and, as such, can be considered another measure of managerial skill. Chart 2 shows the relationship between inventory and sales volume. As total sales increase, inventory dollars also rise (from over $109,000 in the lowest category to almost $516,000 in the highest group). However, percentagewise, inventory investment declines from 31.1% to 11.6% of sales in the highest sales class. The downward trend of inventory as a percent of sales generally mirrors greater productivity and efficiencies of scale. An uptrend is observed in the inventory turnover rate and net profit per dollar of inventory investment as sales progress. Overall, the inventory turnover rate ranged from 2.2 times in units with less than $500,000 in total sales to 6.5 times in stores with sales exceeding $3,000,000. Net profit per dollar of inventory moved from a loss in pharmacies with lower sales volume to 65 cents in the largest stores. Although changes in accounting procedures for inventory valuation are not discussed, the reported trends should be representative of current practices.

CHART 2

Inventory investment according to sales volume



Prescription Department Review

The 1983 NACDS-LILLY DIGEST pharmacies reported a smaller average number of prescriptions dispensed during 1982 in comparison with the previous year's figure (Chart 3). However, this lower level of prescription activity was accompanied by a sizable increase in the average prescription charge, resulting in prescription income which accounted for a larger share of total sales. The average prescription charge can be influenced by product mix, number of doses dispensed, merchandise costs, and dispensing costs. Therefore, it is inaccurate to cite the rising "average prescription charge" as an indication of higher prescription prices.

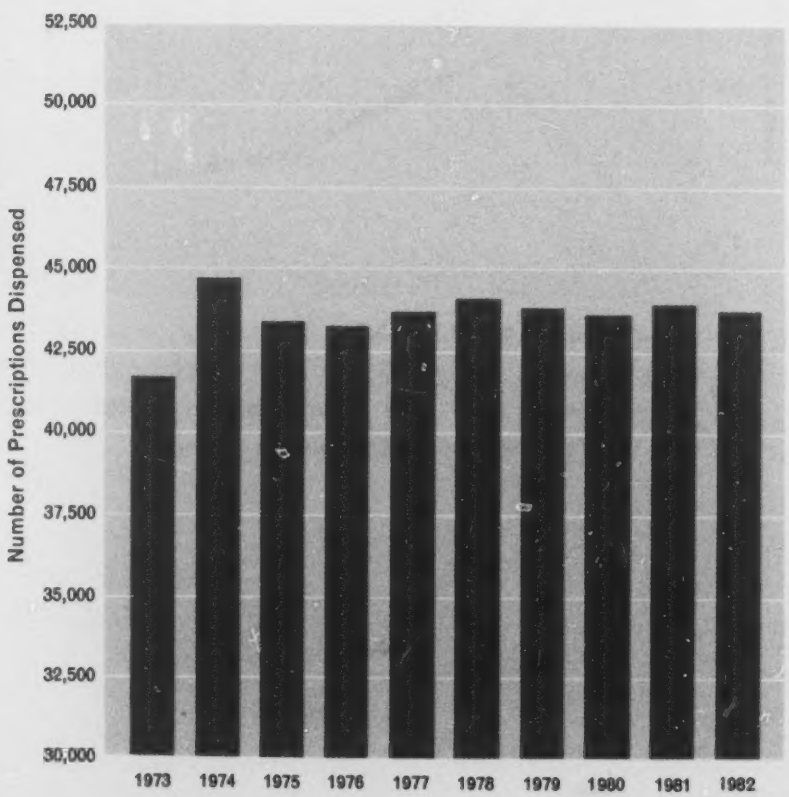
Tables 3 and 4 show the impact of daily prescription activity on selected operating statistics. Chart 4 and Table 3 depict an upward trend in sales volume associated with greater prescription activity. As expected, when total sales and daily prescription activity increase, the number of store hours open and the hours worked by employed pharmacists also move upward. It is noteworthy, however, that employed pharmacist hours do not expand proportionately with greater prescription demand and total sales volume (Chart 4). To illustrate: The larger-volume pharmacies were able to generate more than seven times the number of prescriptions with about an 80% increase in employed pharmacist hours as compared with stores in the lowest sales category (Table 3). This increased productivity in higher-volume units may have been achieved through the use of technicians and/or computer application in the prescription department in addition to the efficiencies of scale expected when volume is adequate to utilize resources fully.

The major operating statistics found in Table 3 are graphically summarized in Chart 5. Since a direct correlation exists between sales volume and daily prescription activity, the overall operating trends are similar to those shown in Chart 1. Generally, as prescription activity grows, total expenses tend to decline faster, as a percent of sales, than does gross margin, which results in an upward trend in net profit for units with greater prescription demand—8.0% in comparison with a loss in the smallest sales class. Table 3 also indicates that, when prescription activity increases, the average prescription charge shows an overall downward trend.

As expected, prescription inventory is higher in stores dispensing over 200 prescriptions daily (almost $58,000) than in those generating fewer than 50 prescriptions per day (about $23,000). But, when

CHART 3

Total number of prescriptions dispensed



prescription inventory is expressed as a percent of sales, the lowest sales category reported a stock investment of 18.1% as compared with 6.6% in the highest group. A more meaningful measure of prescription inventory utilization and control is observed when prescription sales per dollar of prescription inventory are examined (Chart 5 and Table 3). As the number of prescriptions dispensed daily increases, the prescription sales per dollar invested in prescription inventory advance from $5.51 to $15.13; this trend indicates a greater sales dollar return as daily prescription activity grows.

Table 4 shows the influence of the prescription department on store operating statistics according to prescription income as a percent of sales. In contrast to Table 3, total sales and square footage decline when the ratio of prescription income to total sales increases. Stores that do more prescription business also achieve, percentagewise, a higher gross margin, larger total expenses, and, generally, a greater net profit before taxes. The rise in total expenses, as prescription income increases, is accompanied by a larger total wage package expense, as a percent of sales, which suggests a reliance on the professional personnel needed to meet the demand of greater prescription activity.

The average prescription charge varies among chain drugstores whose prescription income is less than 50% of sales, but tends to rise when prescription income advances as a percent of sales (Table 4). In the highest category, the store hours open per week and the hours worked by employed pharmacists were the lowest.

Chain pharmacy managers have suggested that the relationship of the number of prescriptions dispensed to employed pharmacist hours provides another measurement of pharmacist activity. To calculate this ratio, the data in Table 3 were used as a resource. In addition, it is assumed that as the prescription workload becomes heavier, the amount of time the manager spends in the professional area also increases. It should also be noted that in many larger-volume stores there may be two managers—one with primary responsibility for "out front" merchandise management and the other in charge of the prescription department's operation. Considering these points, prescriptions dispensed per employed pharmacist hour rose sharply—from 3.3 in stores with the lowest prescription revenue to 14.1 in the highest. The ratio improved in all categories when compared with the 1981 figures.

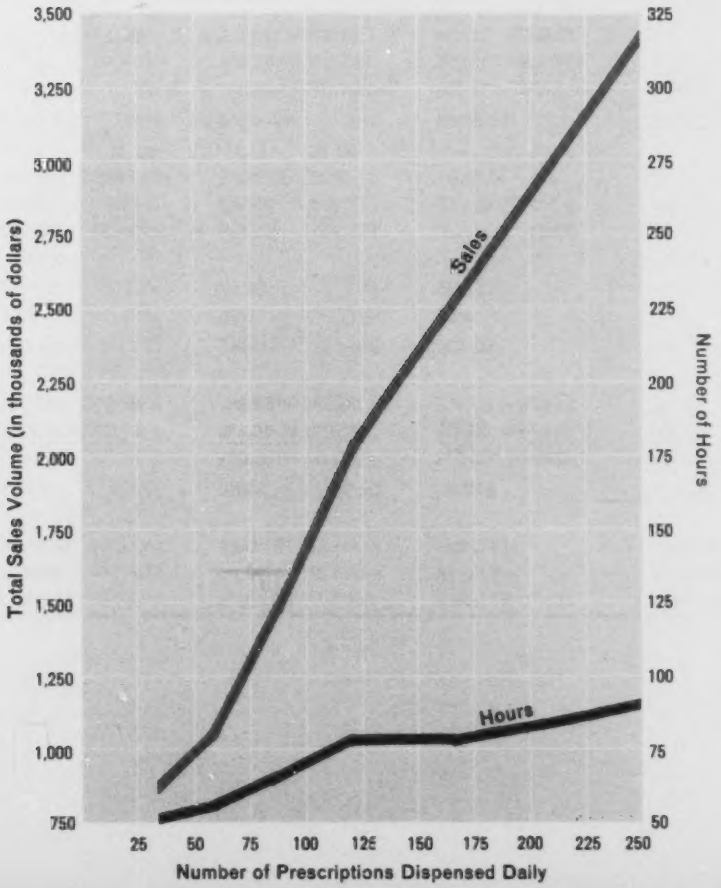


CHART 4

Total sales volume and employed pharmacist hours according to daily prescription activity

TABLE 3 Chain operations according to number of prescriptions dispensed daily

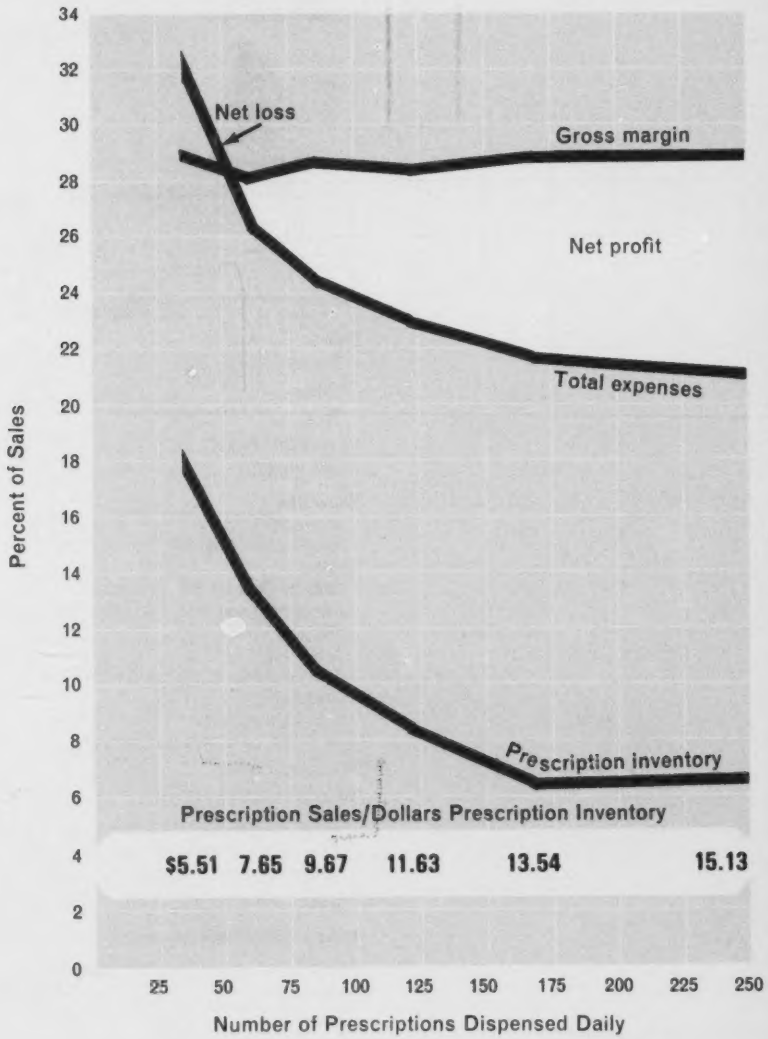
AVERAGES PER PHARMACY	Under 50 Prescriptions Daily (97 Pharmacies)	50 to 75 Prescriptions Daily (214 Pharmacies)	75 to 100 Prescriptions Daily (204 Pharmacies)	100 to 150 Prescriptions Daily (378 Pharmacies)
Sales				
Prescription	$128,485— 14.3%	$ 228,834— 18.3%	$ 304,058— 20.3%	$ 420,755— 20.8%
Other	767,657— 85.7%	1,024,778— 81.7%	1,194,554— 79.7%	1,604,971— 79.2%
Total	$896,142—100.0%	$1,253,612—100.0%	$1,498,612—100.0%	$2,025,726—100.0%
Cost of goods sold	634,132— 70.8%	899,203— 71.7%	1,069,008— 71.3%	1,449,274— 71.5%
Gross margin	$262,010— 29.2%	$ 354,409— 28.3%	$ 429,604— 28.7%	$ 576,452— 28.5%
Expenses				
Manager's salary	$ 24,629— 2.7%	$ 28,818— 2.3%	$ 28,968— 1.9%	$ 29,527— 1.5%
Employees' wages	105,143— 11.7%	119,601— 9.5%	145,205— 9.7%	184,180— 9.1%
Rent	35,950— 4.0%	40,080— 3.2%	42,129— 2.8%	49,458— 2.4%
Utilities (including telephone)	15,419— 1.7%	15,881— 1.3%	18,626— 1.3%	22,783— 1.1%
Insurance, licenses, and taxes (except on profit)	20,697— 2.3%	22,132— 1.8%	25,337— 1.7%	31,431— 1.6%
Repairs	4,615— 0.5%	4,555— 0.4%	4,765— 0.3%	6,192— 0.3%
Advertising	20,779— 2.3%	27,191— 2.2%	26,318— 1.8%	32,730— 1.6%
Depreciation (except on buildings)	10,952— 1.2%	10,203— 0.8%	8,521— 0.6%	11,406— 0.6%
Supplies	5,615— 0.6%	6,331— 0.5%	7,578— 0.5%	10,835— 0.5%
Headquarters fee	24,583— 2.8%	34,311— 2.7%	37,765— 2.5%	52,998— 2.6%
All other direct store expenses	20,928— 2.4%	22,553— 1.8%	27,409— 1.8%	33,130— 1.7%
	13.8%	11.5%	10.5%	10.0%
Total expenses	$289,310— 32.2%	$ 331,656— 26.5%	$ 372,621— 24.9%	$ 464,670— 23.0%
Net profit (before taxes)	($ 27,300— 3.0%)	$ 22,753— 1.8%	$ 56,983— 3.8%	$ 111,782— 5.5%
Value of inventory at cost and as a percent of sales				
Prescription	$ 23,300— 18.1%	$ 29,907— 13.1%	$ 31,433— 10.3%	$ 36,174— 8.6%
Other	159,836— 20.8%	184,949— 18.0%	200,407— 16.8%	244,997— 15.3%
Total	$183,136— 20.4%	$ 214,856— 17.1%	$ 231,840— 15.5%	$ 281,171— 13.9%
Annual rate of turnover of inventory	3.6 times	4.3 times	4.7 times	5.4 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	373 $343.10	392 $576.81	395 $778.43	428 $987.24
Other	6,732 105.03	8,532 135.75	7,860 147.87	8,811 176.01
Total	7,105 143.94	8,924 183.30	8,255 217.85	9,239 275.35
Sales per dollar invested in inventory				
Prescription	$5.51	$7.65	$9.67	$11.63
Other	4.80	5.54	5.96	6.55
Net profit per dollar invested in inventory	($0.149)	$0.106	$0.246	$0.398
Number of prescriptions dispensed				
New	6,817— 53.7%	11,829— 51.9%	16,390— 51.9%	22,818— 51.7%
Renewed	5,886— 46.3%	10,975— 48.1%	15,201— 48.1%	21,337— 48.3%
Total	12,703—100.0%	22,804—100.0%	31,591—100.0%	44,155—100.0%
Prescription charge	$10.11	$10.03	$9.62	$9.53
Number of hours per week				
Pharmacy was open	74 hours	77 hours	79 hours	83 hours
Worked by manager	46 hours	46 hours	46 hours	46 hours
Worked by employed pharmacist(s)	50 hours	57 hours	67 hours	76 hours

*Based on averages of pharmacies that reported all data

150 to 200 Prescriptions Daily (205 Pharmacies)		Over 200 Prescriptions Daily (130 Pharmacies)	
$ 588,699—	22.5%	$ 876,779—	25.5%
2,026,036—	77.5%	2,561,235—	74.5%
$2,614,735—	100.0%	$3,438,014—	100.0%
1,855,363—	71.0%	2,434,149—	70.8%
$ 759,372—	29.0%	$1,003,865—	29.2%
$ 31,936—	1.2%	$ 38,840—	1.1%
222,921—	8.5%	284,087—	8.3%
58,477—	2.2%	77,835—	2.3%
26,034—	1.0%	29,566—	0.9%
34,689—	1.3%	43,579—	1.3%
8,517—	0.3%	9,728—	0.3%
40,765—	1.6%	51,165—	1.5%
14,317—	0.6%	16,838—	0.4%
13,165—	0.5%	18,680—	0.5%
79,935—	3.1%	111,381—	3.2%
42,887—	1.6%	49,008—	1.4%
$ 573,643—	21.9%	$ 730,707—	21.2%
$ 185,729—	7.1%	$ 273,158—	8.0%
$ 43,494—	7.4%	$ 57,959—	6.6%
306,189—	15.1%	351,186—	13.7%
$ 349,683—	13.4%	$ 409,145—	11.9%
	5.5 times		6.1 times
sq. ft.		sq. ft.	
474	$1,253.65	523	$1,615.95
10,422	216.18	10,908	287.11
10,896	339.27	11,431	507.78
	$13.54		$15.13
	6.62		7.29
	$0.531		$0.668
32,296—	52.4%	48,787—	53.4%
29,375—	47.6%	42,534—	46.6%
61,671—	100.0%	91,321—	100.0%
	$9.55		$9.60
	84 hours		83 hours
	46 hours		45 hours
	79 hours		91 hours

10.0%

9.5%



CHART

5

Selected operating statistics according to daily prescription activity

TABLE 4 Chain operations according to prescription revenue

AVERAGES PER PHARMACY	Prescription Income under 10% of Sales (78 Pharmacies)		Prescription Income 10 to 20% of Sales (397 Pharmacies)	
Sales				
Prescription	$ 306,718	7.7%	$ 376,509	15.0%
Other	3,653,838	92.3%	2,125,773	85.0%
Total	$3,960,556	100.0%	$2,502,282	100.0%
Cost of goods sold	2,905,443	73.4%	1,819,724	72.7%
Gross margin	$1,055,113	26.6%	$ 682,558	27.3%
Expenses				
Manager's salary	$ 39,600	1.0%	$ 29,535	1.2%
Employees' wages	327,286	8.3%	221,461	8.9%
Rent	101,530	2.6%	63,426	2.5%
Utilities (including telephone)	36,338	0.9%	28,528	1.1%
Insurance, licenses, and taxes (except on profit)	62,966	1.6%	38,603	1.6%
Repairs	13,098	0.3%	7,791	0.3%
Advertising	66,001	1.6%	37,945	1.5%
Depreciation (except on buildings)	32,487	0.8%	16,303	0.7%
Supplies	18,766	0.5%	12,992	0.5%
Headquarters fee	69,010	1.7%	55,724	2.2%
All other direct store expenses	51,370	1.3%	39,320	1.6%
		8.7%		9.5%
Total expenses	$ 818,452	20.6%	$ 551,628	22.1%
Net profit (before taxes)	$ 236,661	6.0%	$ 130,930	5.2%
Value of inventory at cost and as a percent of sales				
Prescription	$ 29,833	9.7%	$ 32,682	8.7%
Other	470,096	12.9%	298,710	14.1%
Total	$ 499,929	12.6%	$ 331,392	13.2%
Annual rate of turnover of inventory	6.0 times		5.7 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	444	$713.50	446	$843.87
Other	14,904	254.39	10,783	198.22
Total	15,348	267.67	11,229	223.85
Sales per dollar invested in inventory				
Prescription	$10.28		$11.52	
Other	7.77		7.12	
Net profit per dollar invested in inventory	$0.473		$0.395	
Number of prescriptions dispensed				
New	18,389	58.9%	21,753	54.1%
Renewed	12,838	41.1%	18,420	45.9%
Total	31,227	100.0%	40,173	100.0%
Prescription charge	$9.82		$9.37	
Number of hours per week				
Pharmacy was open	81 hours		83 hours	
Worked by manager	46 hours		46 hours	
Worked by employed pharmacist(s)	85 hours		78 hours	

*Based on averages of pharmacies that reported all data

Prescription Income 20 to 30% of Sales (349 Pharmacies)	Prescription Income 30 to 40% of Sales (241 Pharmacies)	Prescription Income 40 to 50% of Sales (74 Pharmacies)	Prescription Income over 50% of Sales (89 Pharmacies)
$ 430,129— 24.3%	$ 501,148— 34.8%	$ 515,946— 41.2%	$389,906— 69.6%
1,339,650— 75.7%	938,677— 65.2%	737,597— 58.8%	170,324— 30.4%
$1,769,779—100.0%	$1,439,825—100.0%	$1,253,543—100.0%	$560,230—100.0%
1,245,473— 70.4%	987,774— 68.6%	842,574— 67.2%	365,202— 65.2%
$ 524,306— 29.6%	$ 452,051— 31.4%	$ 410,969— 32.8%	$195,028— 34.8%
$ 27,848— 1.6%	$ 31,354— 2.2%	$ 30,854— 2.5%	$ 32,023— 5.7%
165,893— 9.4%	133,349— 9.3%	123,420— 9.8%	56,742— 10.1%
42,846— 2.4%	36,693— 2.5%	32,885— 2.6%	23,941— 4.3%
19,394— 1.1%	17,049— 1.2%	14,142— 1.1%	4,525— 0.8%
25,945— 1.5%	21,857— 1.5%	20,554— 1.7%	5,509— 1.0%
5,388— 0.3%	5,279— 0.4%	5,311— 0.4%	955— 0.2%
32,299— 1.8%	27,923— 1.9%	24,712— 2.0%	6,076— 1.1%
8,771— 0.5%	6,581— 0.5%	6,186— 0.5%	3,460— 0.6%
9,287— 0.5%	7,829— 0.5%	8,560— 0.7%	3,206— 0.6%
57,527— 3.3%	61,627— 4.3%	54,552— 4.4%	20,895— 3.7%
36,000— 2.0%	21,363— 1.5%	22,335— 1.8%	12,945— 2.3%
11.0%	11.8%	12.6%	10.3%
$ 431,198— 24.4%	$ 370,904— 25.8%	$ 343,511— 27.5%	$170,277— 30.4%
$ 93,108— 5.2%	$ 81,147— 5.6%	$ 67,458— 5.3%	$ 24,751— 4.4%
$ 36,169— 8.4%	$ 40,918— 8.2%	$ 42,126— 8.2%	$ 48,245— 12.4%
224,263— 16.7%	187,054— 19.9%	164,758— 22.3%	69,694— 40.9%
$ 260,432— 14.7%	$ 227,972— 15.8%	$ 206,884— 16.5%	$117,939— 21.1%
4.9 times	4.5 times	4.3 times	3.1 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
416 $995.02	398 $1,099.14	423 $1,061.57	473 $903.96
8,011 160.62	6,752 122.02	5,793 101.42	1,934 96.85
8,427 201.83	7,150 175.98	6,216 168.63	2,407 255.35
$11.89	$12.25	$12.25	$8.08
5.97	5.02	4.48	2.44
$0.358	$0.356	$0.326	$0.210
23,557— 52.5%	26,484— 51.1%	26,241— 49.5%	16,944— 45.3%
21,283— 47.5%	25,304— 48.9%	26,739— 50.5%	20,430— 54.7%
44,840—100.0%	51,788—100.0%	52,980—100.0%	37,374—100.0%
$9.59	$9.68	$9.74	$10.43
82 hours	82 hours	80 hours	61 hours
46 hours	46 hours	46 hours	46 hours
76 hours	67 hours	55 hours	32 hours

Ten-Year Trends in Pharmacy Operations

Trends in the average operating statistics of the chain drugstore industry are shown in Charts 6 and 7 and Tables 5 and 6. Individual store projections should include an assessment of local market conditions and anticipated opportunities, as well as an understanding of the patterns observed in past years.

Sales, Expenses, Inventory Levels

For the seventh consecutive year, annual sales volume in the typical NACDS-LILLY DIGEST chain drugstore showed an increase (Chart 6). Total sales for 1982 established a new record that approached the $2,000,000 level. However, Chart 7 demonstrates the erratic pattern of net profit before taxes during the past ten years. During 1982, net profit showed a dramatic improvement over the previous year and reached the highest level of the decade. The excellent performance (net profit up 59.2% from a year earlier to 5.4% of sales) was the result of higher gross margin and lower total expenses as percents of sales.

The cost of goods sold fell 0.3% to 71.2% of sales during 1982, resulting in a rise in gross margin to 28.8%. Lower total expenses may be explained

CHART 6 Sales growth—1973-1982

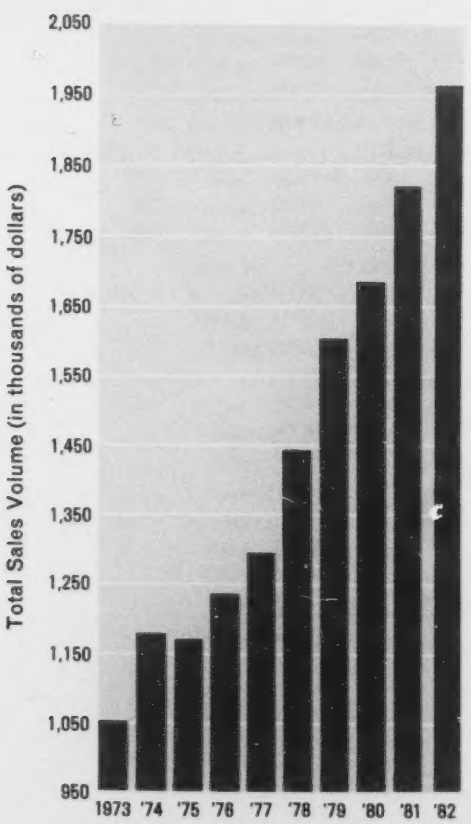
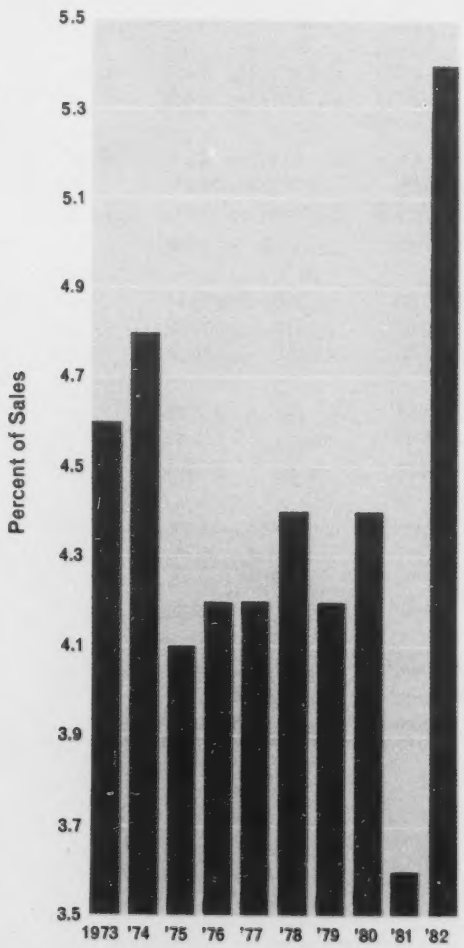


CHART 7 Net profit percentage—1973-1982



by the finding that the total wage package and miscellaneous operating expenses, collectively, decreased by 1.6%, whereas rent rose only 0.1%. The significant reduction, percentagewise, of employees' wages and miscellaneous operating costs is impressive, and it remains to be determined whether these levels will continue to be achieved in future reports.

Inventory, as a percent of sales, has shown no definite pattern over the decade. During 1982, this statistic decreased to 14.2% from 15.1% the previous year. This drop was due, in large part, to the decline, both dollarwise and as a percent of sales, of "other" inventory. "Other" inventory fell 0.4% in dollars and a full 1% of sales from the 1981 figure. Prescription inventory decreased from 8.8% of sales to 8.7% to reach an all-time low.

Table 6 depicts trends in the prescription department. The average number of prescriptions dispensed declined slightly from the previous year. However, prescription revenue was up 15.2%, as a result of a 15.8% rise in the average prescription charge. The professional area's share of total sales, at 21.5%, was the highest on record. The number of new prescriptions dropped to the 1977 level of 52.3% of all prescriptions dispensed. The produc-

TABLE 5

Averages of pharmacy operations—1973-1982 (based on all pharmacies reporting)

EXPRESSED IN DOLLARS

Year	Sales	Cost of Goods Sold	Gross Margin	Manager's Salary	Employees' Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1973	$1,057,680	$ 759,102	$298,578	$19,373	$103,024	$30,244	$ 97,382	$250,023	$ 48,555	$154,338
1974	1,182,634	849,821	332,813	24,178	110,880	32,588	108,621	276,267	56,546	174,582
1975	1,173,318	842,774	330,544	24,367	114,412	32,504	110,946	282,229	48,315	164,487
1976	1,238,846	894,485	344,361	22,581	115,968	32,986	120,569	292,104	52,257	184,852
1977	1,295,213	929,644	365,569	22,789	124,534	34,769	129,484	311,576	53,993	195,234
1978	1,443,299	1,036,746	406,553	24,187	137,166	37,555	144,065	342,973	63,580	209,718
1979	1,606,756	1,156,667	450,089	26,515	151,781	43,224	161,010	382,530	67,559	227,115
1980	1,685,848	1,198,974	486,874	27,021	161,598	44,970	178,911	412,500	74,374	242,092
1981	1,824,139	1,305,059	519,080	27,753	175,036	46,268	203,674	452,731	66,349	275,033
1982	1,962,217	1,397,909	564,308	30,312	177,252	50,049	201,089	458,702	105,606	278,661

EXPRESSED IN PERCENTAGE OF SALES

Year	Sales	Cost of Goods Sold	Gross Margin	Manager's Salary	Employees' Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1973	100.0%	71.8%	28.2%	1.8%	9.7%	2.9%	9.2%	23.6%	4.6%	14.6%
1974	100.0	71.9	28.1	2.0	9.4	2.8	9.1	23.3	4.8	14.8
1975	100.0	71.8	28.2	2.1	9.8	2.8	9.4	24.1	4.1	14.0
1976	100.0	72.2	27.8	1.8	9.4	2.7	9.7	23.6	4.2	14.9
1977	100.0	71.8	28.2	1.8	9.6	2.7	9.9	24.0	4.2	15.1
1978	100.0	71.8	28.2	1.7	9.5	2.6	10.0	23.8	4.4	14.5
1979	100.0	72.0	28.0	1.7	9.4	2.7	10.0	23.8	4.2	14.1
1980	100.0	71.1	28.9	1.6	9.6	2.7	10.6	24.5	4.4	14.4
1981	100.0	71.5	28.5	1.5	9.6	2.5	11.3	24.9	3.6	15.1
1982	100.0	71.2	28.8	1.5	9.0	2.6	10.3	23.4	5.4	14.2

tivity of prescription stock (sales per dollar of prescription inventory) as well as prescription inventory (in dollars) also set new records—$11.44 and almost $37,000 respectively. Productivity of the nonprescription area has been inconsistent over the past ten years but rose 36 cents to $6.37 during 1982. Most indicators suggest a positive trend in prescription department performance for this year.

The floor area of the average chain drugstore decreased 138 square feet, or 1.5% of total space reported for 1981. Over the past decade, however, chain units have expanded from 8,689 square feet to 9,248 square feet. Sales productivity increased from $122.93 to $213.61 per square foot during this period, which suggests that more sales are being generated from the allotted floor space in NACDS-LILLY DIGEST stores.

TABLE 6 Prescription trends—1973-1982

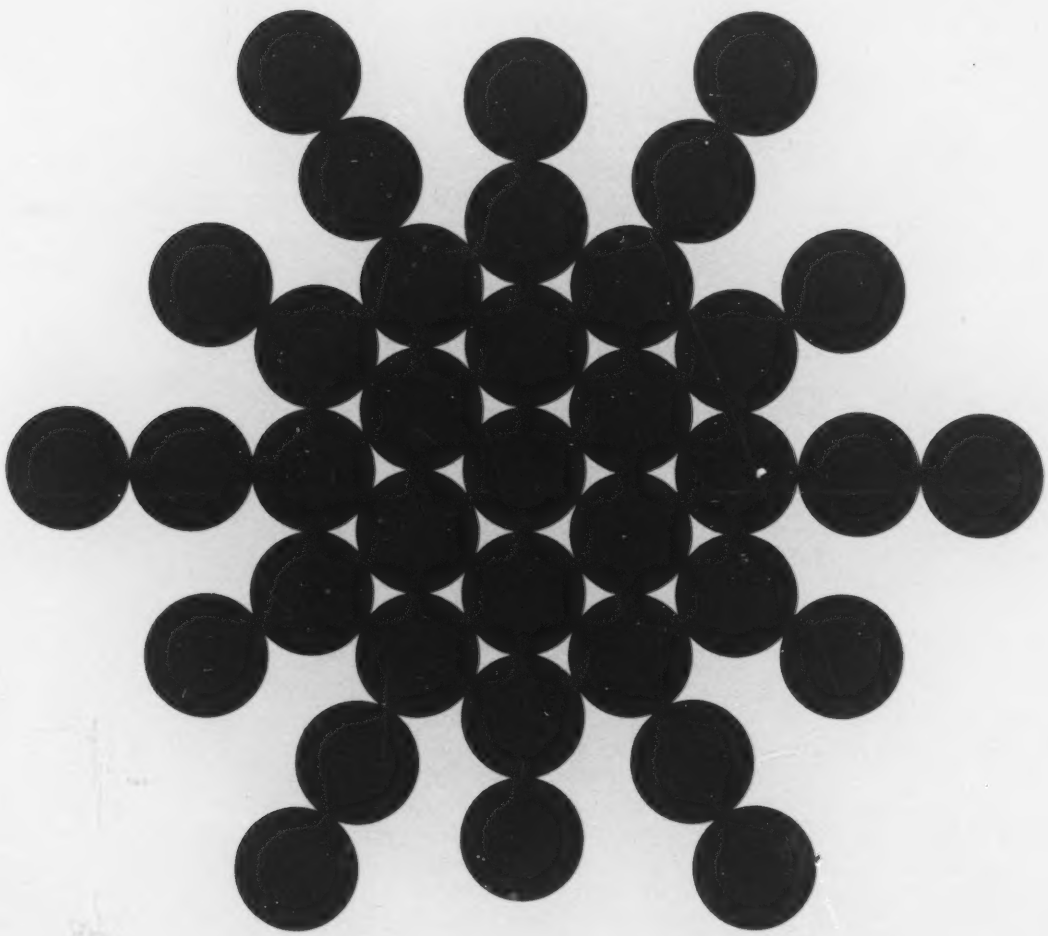
AVERAGES PER PHARMACY

Year	Prescription Sales	Percentage of Prescription Sales to Total Sales	Number of Prescriptions	Percent Renewals	Prescription Charge	Prescription Inventory	Prescription Sales per Dollar of Prescription Inventory	Non-prescription Sales per Dollar of Inventory	Non-prescription Inventory as Percent of Sales	Prescription Inventory as Percent of Sales
1973	$170,629	16.1%	41,737	49.2%	$4.09	$18,871	$ 9.04	$6.55	15.3%	11.1%
1974	195,675	16.5%	44,783	48.6%	4.37	20,675	9.46	6.41	15.6%	10.6%
1975	207,382	17.7%	43,457	48.3%	4.77	21,737	9.54	6.77	14.8%	10.5%
1976	224,852	18.2%	43,305	48.6%	5.19	22,387	10.04	6.24	16.0%	10.0%
1977	244,558	18.9%	43,742	47.7%	5.59	24,133	10.13	6.14	16.3%	9.9%
1978	264,523	18.3%	44,144	46.9%	5.99	25,519	10.37	6.40	15.6%	9.6%
1979	287,744	17.9%	43,877	46.1%	6.56	27,491	10.47	6.61	15.1%	9.6%
1980	315,341	18.7%	43,578	46.9%	7.24	29,711	10.61	6.45	15.5%	9.4%
1981	365,680	20.0%	44,001	45.8%	8.31	32,172	11.37	6.01	16.7%	8.8%
1982	421,149	21.5%	43,780	47.7%	9.62	36,805	11.44	6.37	15.7%	8.7%

H E A R T

The heart of the 1983 NACDS-LILLY DIGEST comprises 23 categories of chain pharmacy operating data arranged first by sales and then by daily prescription activity (Tables 7 through 9). These groups of operating statistics are structured to allow comparison with any pharmacy's figures.

A standard accounting format is used throughout the DIGEST, but adjustments may be necessary to permit proper comparisons with other accounting systems.



THE HEART OF THE NACDS-LILLY DIGEST—
1982 operations according to sales and prescription activity

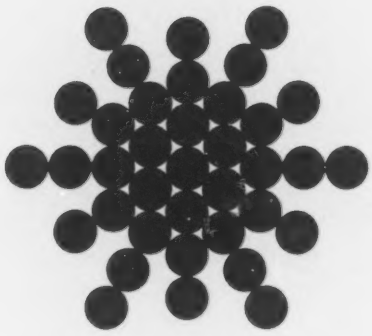


Table 7 Sales under $1,000,000

	TOTAL SALES Under $500,000	
AVERAGES PER PHARMACY	(74 Pharmacies)	
Sales		
Prescription	$201,065—	57.3%
Other	150,134—	42.7%
Total	$351,199—	100.0%
Cost of goods sold	232,198—	66.1%
Gross margin	$119,001—	33.9%
Expenses		
Manager's salary	$ 27,348—	7.8%
Employees' wages	38,572—	11.0%
Rent	21,398—	6.1%
Utilities (including telephone)	4,364—	1.2%
Insurance, licenses, and taxes (except on profit)	4,482—	1.3%
Repairs	787—	0.2%
Advertising	5,769—	1.6%
Depreciation (except on buildings)	2,607—	0.8%
Supplies	1,806—	0.5%
Headquarters fee	13,219—	3.8%
All other direct store expenses	9,064—	2.6%
	12.0%	
Total expenses	$129,416—	36.9%
Net profit (before taxes)	($ 10,415—	3.0%)
Value of inventory at cost and as a percent of sales		
Prescription	$ 34,592—	17.2%
Other	74,631—	49.7%
Total	$109,223—	31.1%
Annual rate of turnover of inventory		2.2 times
Size of area and sales per square foot*	sq. ft.	
Prescription	274	$541.45
Other	3,497	54.27
Total	3,771	89.64
Sales per dollar invested in inventory		
Prescription		$5.81
Other		2.01
Net profit per dollar invested in inventory		($0.100)
Number of prescriptions dispensed		
New	9,546—	48.9%
Renewed	9,972—	51.1%
Total	19,518—	100.0%
Prescription charge		$10.30
Number of hours per week		
Pharmacy was open		61 hours
Worked by manager		46 hours
Worked by employed pharmacist(s)		24 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES $500,000 to $750,000	TOTAL SALES $750,000 to $1,000,000		
(72 Pharmacies)	Under 75 Prescriptions Daily (61 Pharmacies)	75 to 100 Prescriptions Daily (39 Pharmacies)	Over 100 Prescriptions Daily (33 Pharmacies)
$238,060— 36.6%	$207,851— 23.9%	$294,729— 33.0%	$445,863— 49.5%
412,488— 63.4%	662,828— 76.1%	598,449— 67.0%	454,392— 50.5%
$650,548—100.0%	$870,679—100.0%	$893,178—100.0%	$900,255—100.0%
448,434— 68.9%	607,878— 69.8%	619,943— 69.4%	611,565— 67.9%
$202,114— 31.1%	$262,801— 30.2%	$273,235— 30.6%	$288,690— 32.1%
$ 28,624— 4.4%	$ 26,503— 3.0%	$ 28,916— 3.2%	$ 30,595— 3.4%
74,018— 11.4%	95,744— 11.0%	90,121— 10.1%	91,079— 10.1%
24,588— 3.8%	27,031— 3.1%	25,845— 2.9%	25,841— 2.9%
10,680— 1.6%	12,497— 1.5%	14,494— 1.6%	11,387— 1.3%
11,792— 1.8%	18,528— 2.1%	15,530— 1.7%	14,606— 1.6%
2,317— 0.4%	3,868— 0.5%	3,275— 0.4%	2,760— 0.3%
14,186— 2.2%	19,515— 2.3%	18,616— 2.1%	16,729— 1.9%
5,906— 0.9%	8,874— 1.0%	4,798— 0.5%	4,930— 0.5%
4,252— 0.6%	5,191— 0.6%	5,648— 0.6%	6,017— 0.7%
23,853— 3.7%	26,229— 3.0%	31,662— 3.6%	31,101— 3.5%
13,109— 2.0%	16,801— 1.9%	14,288— 1.6%	22,089— 2.4%
13.2%	12.9%	12.1%	12.2%
$213,325— 32.8%	$260,781— 30.0%	$253,193— 28.3%	$257,134— 28.6%
($ 11,211— 1.7%)	$ 2,020— 0.2%	$ 20,042— 2.3%	$ 31,556— 3.5%
$ 30,487— 12.8%	$ 27,600— 13.3%	$ 30,653— 10.4%	$ 42,152— 9.5%
113,972— 27.6%	141,347— 21.3%	141,322— 23.6%	123,161— 27.1%
$144,459— 22.2%	$168,947— 19.4%	$171,975— 19.3%	$165,313— 18.4%
3.2 times	3.6 times	3.7 times	3.8 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
444 $451.48	331 $628.17	353 $835.17	462 $900.11
5,452 83.03	6,727 98.54	6,664 89.80	5,689 84.45
5,896 110.74	7,058 123.37	7,017 127.28	6,151 145.71
$7.81	$7.53	$9.61	$10.58
3.62	4.69	4.23	3.69
($0.080)	$0.010	$0.120	$0.190
11,877— 49.3%	10,703— 53.2%	15,658— 50.6%	21,510— 45.5%
12,237— 50.7%	9,412— 46.8%	15,304— 49.4%	25,790— 54.5%
24,114—100.0%	20,115—100.0%	30,962—100.0%	47,300—100.0%
$9.87	$10.33	$9.52	$9.43
74 hours	76 hours	79 hours	73 hours
46 hours	46 hours	48 hours	46 hours
45 hours	56 hours	57 hours	49 hours

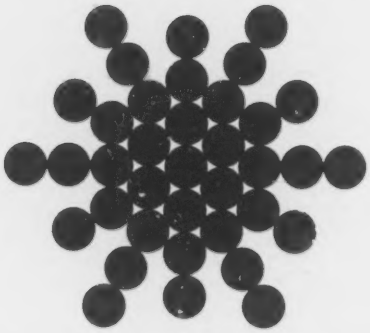


Table 8 Sales $1,000,000 to $2,000,000

AVERAGES PER PHARMACY	TOTAL SALES $1,000,000 to $1,500,000 — Under 75 Prescriptions Daily (60 Pharmacies)	75 to 100 Prescriptions Daily (59 Pharmacies)	100 to 150 Prescriptions Daily (108 Pharmacies)	Over 150 Prescriptions Daily (32 Pharmacies)
Sales				
Prescription	$ 210,385— 17.2%	$ 311,548— 24.9%	$ 414,141— 33.2%	$ 601,613— 46.3%
Other	1,015,784— 82.8%	939,505— 75.1%	834,729— 66.8%	698,690— 53.7%
Total	$1,226,169—100.0%	$1,251,053—100.0%	$1,248,870—100.0%	$1,300,303—100.0%
Cost of goods sold	871,069— 71.0%	876,845— 70.1%	859,782— 68.8%	877,659— 67.5%
Gross margin	$ 355,100— 29.0%	$ 374,208— 29.9%	$ 389,088— 31.2%	$ 422,644— 32.5%
Expenses				
Manager's salary	$ 24,712— 2.0%	$ 27,090— 2.2%	$ 28,336— 2.3%	$ 29,239— 2.2%
Employees' wages	128,920— 10.5%	123,564— 9.9%	122,769— 9.8%	125,642— 9.7%
Rent	39,557— 3.2%	32,503— 2.6%	28,786— 2.3%	30,850— 2.4%
Utilities (including telephone)	17,975— 1.5%	14,407— 1.1%	14,661— 1.2%	13,968— 1.1%
Insurance, licenses, and taxes (except on profit)	25,505— 2.1%	21,088— 1.7%	20,638— 1.7%	18,539— 1.4%
Repairs	4,833— 0.4%	3,983— 0.3%	4,351— 0.4%	5,644— 0.4%
Advertising	27,459— 2.2%	24,859— 2.0%	24,279— 1.9%	22,789— 1.8%
Depreciation (except on buildings)	10,312— 0.9%	5,913— 0.5%	4,496— 0.4%	7,100— 0.5%
Supplies	7,176— 0.6%	5,798— 0.4%	7,325— 0.6%	7,733— 0.6%
Headquarters fee	35,963— 2.9%	38,182— 3.1%	48,997— 3.9%	61,290— 4.7%
All other direct store expenses	26,567— 2.2%	22,812— 1.8%	17,563— 1.4%	22,354— 1.7%
	12.8%	10.9%	11.5%	12.2%
Total expenses	$ 348,979— 28.5%	$ 320,199— 25.6%	$ 322,201— 25.9%	$ 345,148— 26.5%
Net profit (before taxes)	$ 6,121— 0.5%	$ 54,009— 4.3%	$ 66,887— 5.3%	$ 77,496— 6.0%
Value of inventory at cost and as a percent of sales				
Prescription	$ 27,305— 13.0%	$ 30,619— 9.8%	$ 36,111— 8.7%	$ 48,221— 8.0%
Other	184,515— 18.2%	174,338— 18.6%	161,521— 19.4%	165,082— 23.6%
Total	$ 211,820— 17.3%	$ 204,957— 16.4%	$ 197,632— 15.8%	$ 213,303— 16.4%
Annual rate of turnover of inventory	4.2 times	4.3 times	4.5 times	4.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	437 $495.31	402 $777.67	366 $1,128.39	455 $1,209.07
Other	8,217 121.34	7,388 126.64	6,772 122.93	6,582 115.27
Total	8,654 140.24	7,790 160.24	7,138 174.42	7,037 186.04
Sales per dollar invested in inventory				
Prescription	$7.70	$10.17	$11.47	$12.48
Other	5.51	5.39	5.17	4.23
Net profit per dollar invested in inventory	$0.030	$0.260	$0.340	$0.360
Number of prescriptions dispensed				
New	10,452— 51.3%	16,636— 51.9%	21,431— 49.8%	30,427— 47.8%
Renewed	9,934— 48.7%	15,396— 48.1%	21,584— 50.2%	33,165— 52.2%
Total	20,386—100.0%	32,032—100.0%	43,015—100.0%	63,592—100.0%
Prescription charge	$10.32	$9.73	$9.63	$9.46
Number of hours per week				
Pharmacy was open	80 hours	79 hours	83 hours	79 hours
Worked by manager	46 hours	46 hours	47 hours	45 hours
Worked by employed pharmacist(s)	59 hours	68 hours	73 hours	61 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES
$1,500,000 to $2,000,000

Under 75 Prescriptions Daily (36 Pharmacies)	75 to 100 Prescriptions Daily (51 Pharmacies)	100 to 150 Prescriptions Daily (69 Pharmacies)	Over 150 Prescriptions Daily (67 Pharmacies)
$ 200,108— 11.5%	$ 300,404— 17.1%	$ 418,368— 24.3%	$ 643,803— 37.8%
1,538,148— 88.5%	1,451,894— 82.9%	1,305,147— 75.7%	1,059,217— 62.2%
$1,738,256—100.0%	$1,752,298—100.0%	$1,723,515—100.0%	$1,703,020—100.0%
1,255,427— 72.2%	1,257,238— 71.7%	1,218,813— 70.7%	1,152,525— 67.7%
$ 482,829— 27.8%	$ 495,060— 28.3%	$ 504,702— 29.3%	$ 550,495— 32.3%
$ 27,000— 1.6%	$ 28,405— 1.6%	$ 26,936— 1.6%	$ 30,508— 1.8%
164,269— 9.5%	176,715— 10.1%	167,632— 9.7%	142,756— 8.4%
55,072— 3.2%	46,386— 2.6%	40,001— 2.3%	45,257— 2.7%
24,614— 1.4%	22,341— 1.3%	20,893— 1.2%	18,642— 1.1%
28,210— 1.6%	31,705— 1.8%	28,132— 1.7%	23,989— 1.4%
7,668— 0.4%	5,418— 0.3%	4,923— 0.3%	7,412— 0.4%
43,260— 2.5%	31,106— 1.8%	32,912— 1.9%	35,001— 2.1%
12,998— 0.7%	10,663— 0.6%	9,340— 0.5%	7,371— 0.4%
8,005— 0.5%	9,819— 0.6%	9,870— 0.6%	8,976— 0.5%
42,107— 2.4%	39,801— 2.3%	56,668— 3.3%	87,778— 5.2%
32,338— 1.9%	37,152— 2.1%	36,428— 2.1%	21,245— 1.2%
11.4%	10.8%	11.6%	12.3%
$ 445,541— 25.7%	$ 439,511— 25.1%	$ 433,735— 25.2%	$ 428,935— 25.2%
$ 37,288— 2.1%	$ 55,549— 3.2%	$ 70,967— 4.1%	$ 121,560— 7.1%
$ 25,166— 12.6%	$ 31,005— 10.3%	$ 35,916— 8.6%	$ 47,926— 7.4%
244,063— 15.9%	236,246— 16.3%	222,908— 17.1%	221,306— 20.9%
$ 269,229— 15.5%	$ 267,251— 15.3%	$ 258,824— 15.0%	$ 269,232— 15.8%
4.8 times	4.8 times	4.9 times	4.5 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
445 $458.25	426 $733.38	449 $954.54	489 $1,315.53
9,854 155.39	8,583 166.20	7,836 163.47	7,170 148.08
10,299 168.49	9,009 193.02	8,285 206.33	7,659 222.67
$7.95	$9.69	$11 65	$13.43
6.30	6.15	5.86	4.79
$0.140	$0.210	$0.270	$0.450
11,566— 53.8%	16,254— 51.5%	22,165— 51.0%	33,931— 50.5%
9,949— 46.2%	15,302— 48.5%	21,266— 49.0%	33,232— 49.5%
21,515—100.0%	31,556—100.0%	43,431—100.0%	67,163—100.0%
$9.30	$9.52	$9.63	$9.59
80 hours	81 hours	85 hours	84 hours
47 hours	46 hours	45 hours	45 hours
62 hours	74 hours	80 hours	69 hours

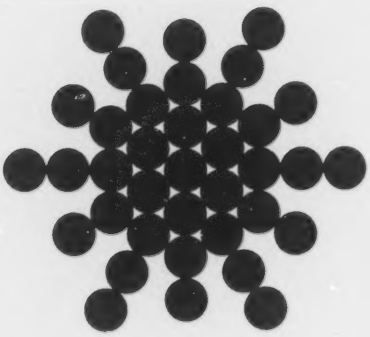


Table 9 Sales over $2,000,000

TOTAL SALES

$2,000,000 to $2,500,000

AVERAGES PER PHARMACY	Under 100 Prescriptions Daily (40 Pharmacies)	100 to 150 Prescriptions Daily (62 Pharmacies)	150 to 200 Prescriptions Daily (31 Pharmacies)	Over 200 Precriptions Daily (26 Pharmacies)
Sales				
Prescription	$ 258,150— 11.7%	$ 432,903— 19.2%	$ 578,036— 25.9%	$ 796,274— 35.7%
Other	1,954,203— 88.3%	1,820,611— 80.8%	1,651,120— 74.1%	1,436,760— 64.3%
Total	$2,212,353—100.0%	$2,253,514—100.0%	$2,229,156—100.0%	$2,233,034—100.0%
Cost of goods sold	1,624,209— 73.4%	1,620,803— 71.9%	1,552,710— 69.7%	1,526,794— 68.4%
Gross margin	$ 588,144— 26.6%	$ 632,711— 28.1%	$ 676,446— 30.3%	$ 706,240— 31.6%
Expenses				
Manager's salary	$ 31,207— 1.4%	$ 28,780— 1.3%	$ 31,653— 1.4%	$ 32,019— 1.4%
Employees' wages	198,272— 9.0%	210,222— 9.3%	204,111— 9.2%	184,133— 8.2%
Rent	75,902— 3.4%	55,305— 2.5%	52,409— 2.4%	55,113— 2.5%
Utilities (including telephone)	29,889— 1.4%	26,673— 1.2%	22,591— 1.0%	19,878— 0.9%
Insurance, licenses, and taxes (except on profit)	39,537— 1.8%	35,167— 1.6%	32,497— 1.4%	26,768— 1.2%
Repairs	8,642— 0.4%	7,082— 0.3%	7,048— 0.3%	7,749— 0.4%
Advertising	41,060— 1.9%	36,623— 1.6%	42,198— 1.9%	42,604— 1.9%
Depreciation (except on buildings)	18,431— 0.8%	10,840— 0.5%	11,571— 0.5%	11,202— 0.5%
Supplies	11,021— 0.5%	11,402— 0.5%	10,727— 0.5%	16,619— 0.7%
Headquarters fee	56,055— 2.5%	52,072— 2.3%	84,340— 3.8%	102,785— 4.6%
All other direct store expenses	36,179— 1.6%	43,134— 1.9%	45,849— 2.0%	26,882— 1.2%
	10.9%	9.9%	11.4%	11.4%
Total expenses	$ 546,195— 24.7%	$ 517,300— 23.0%	$ 544,994— 24.4%	$ 525,752— 23.5%
Net profit (before taxes)	$ 41,949— 1.9%	$ 115,411— 5.1%	$ 131,452— 5.9%	$ 180,488— 8.1%
Value of inventory at cost and as a percent of sales				
Prescription	$ 29,328— 11.4%	$ 37,158— 8.6%	$ 42,514— 7.4%	$ 55,449— 7.0%
Other	304,087— 15.6%	272,478— 15.0%	282,472— 17.1%	261,810— 18.2%
Total	$ 333,415— 15.1%	$ 309,636— 13.7%	$ 324,986— 14.6%	$ 317,259— 14.2%
Annual rate of turnover of inventory	5.1 times	5.4 times	5.1 times	5.0 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	436 $581.95	484 $927.18	482 $1,204.27	390 $1,929.13
Other	11,924 166.10	10,458 172.45	9,722 171.34	6,663 227.72
Total	12,360 180.76	10,942 205.84	10,204 220.11	7,053 321.91
Sales per dollar invested in inventory				
Prescription	$8.80	$11.65	$13.60	$14.36
Other	6.43	6.68	5.85	5.49
Net profit per dollar invested in inventory	$0.130	$0.370	$0.400	$0.570
Number of prescriptions dispensed				
New	14,536— 53.0%	23,932— 52.0%	33,288— 54.2%	44,907— 53.7%
Renewed	12,904— 47.0%	22,133— 48.0%	28,100— 45.8%	38,771— 46.3%
Total	27,440—100.0%	46,065—100.0%	61,388—100.0%	83,678—100.0%
Prescription charge	$9.41	$9.40	$9.42	$9.52
Number of hours per week				
Pharmacy was open	81 hours	85 hours	83 hours	83 hours
Worked by manager	47 hours	46 hours	46 hours	45 hours
Worked by employed pharmacist(s)	77 hours	83 hours	86 hours	73 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES $2,500,000 to $3,000,000			TOTAL SALES Over $3,000,000		
Under 150 Prescriptions Daily (71 Pharmacies)	150 to 200 Prescriptions Daily (27 Pharmacies)	Over 200 Prescriptions Daily (25 Pharmacies)	Under 150 Prescriptions Daily (66 Pharmacies)	150 to 200 Prescriptions Daily (61 Pharmacies)	Over 200 Prescriptions Daily (58 Pharmacies)
$ 378,850— 14.0%	$ 578,424— 21.3%	$ 820,273— 30.0%	$ 397,448— 9.8%	$ 606,424— 14.1%	$ 943,469— 19.0%
2,335,373— 86.0%	2,140,156— 78.7%	1,915,021— 70.0%	3,674,784— 90.2%	3,708,047— 85.9%	4,030,028— 81.0%
$2,714,223—100.0%	$2,718,580—100.0%	$2,735,294—100.0%	$4,072,232—100.0%	$4,314,471—100.0%	$4,973,497—100.0%
1,981,639— 73.0%	1,927,709— 70.9%	1,899,250— 69.4%	2,980,607— 73.2%	3,144,920— 72.9%	3,587,524— 72.1%
$ 732,584— 27.0%	$ 790,871— 29.1%	$ 836,044— 30.6%	$1,091,625— 26.8%	$1,169,551— 27.1%	$1,385,973— 27.9%
$ 30,257— 1.1%	$ 27,066— 1.0%	$ 26,858— 1.0%	$ 37,637— 0.9%	$ 36,939— 0.9%	$ 49,129— 1.0%
243,892— 9.0%	256,626— 9.4%	222,317— 8.1%	336,087— 8.3%	344,167— 8.0%	408,620— 8.2%
66,626— 2.5%	65,774— 2.4%	68,450— 2.5%	106,592— 2.6%	85,231— 2.0%	105,077— 2.1%
30,796— 1.1%	28,837— 1.1%	27,325— 1.0%	38,480— 0.9%	39,683— 0.9%	40,371— 0.8%
40,642— 1.5%	31,154— 1.2%	30,035— 1.1%	64,094— 1.6%	55,698— 1.3%	65,926— 1.3%
6,754— 0.2%	7,518— 0.3%	8,881— 0.3%	13,770— 0.3%	12,704— 0.3%	12,215— 0.3%
38,443— 1.4%	39,126— 1.4%	45,327— 1.7%	58,884— 1.5%	56,751— 1.3%	66,301— 1.3%
17,558— 0.7%	11,174— 0.4%	13,569— 0.5%	31,705— 0.8%	27,500— 0.6%	23,494— 0.5%
15,037— 0.6%	15,404— 0.6%	13,629— 0.5%	17,886— 0.4%	20,735— 0.5%	24,629— 0.5%
51,968— 1.9%	72,349— 2.7%	142,330— 5.2%	73,031— 1.8%	90,747— 2.1%	111,360— 2.3%
46,470— 1.7%	77,115— 2.8%	41,818— 1.6%	52,945— 1.3%	57,168— 1.3%	69,137— 1.4%
9.1%	10.5%	11.9%	8.6%	8.3%	8.4%
$ 588,443— 21.7%	$ 632,143— 23.3%	$ 640,539— 23.5%	$ 831,111— 20.4%	$ 827,323— 19.2%	$ 976,259— 19.7%
$ 144,141— 5.3%	$ 158,728— 5.8%	$ 195,505— 7.1%	$ 260,514— 6.4%	$ 342,228— 7.9%	$ 409,714— 8.2%
$ 32,267— 8.5%	$ 40,617— 7.0%	$ 55,743— 6.8%	$ 32,970— 8.3%	$ 42,343— 7.0%	$ 57,433— 6.1%
306,523— 13.1%	319,366— 14.9%	303,279— 15.8%	476,423— 13.0%	465,562— 12.6%	474,357— 11.8%
$ 338,790— 12.5%	$ 359,983— 13.2%	$ 359,022— 13.1%	$ 509,393— 12.5%	$ 507,905— 11.8%	$ 531,790— 10.7%
6.1 times	5.6 times	5.4 times	6.1 times	6.5 times	6.9 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
461 $799.72	473 $1,241.69	429 $1,780.30	405 $978.36	448 $1,371.10	580 $1,525.41
10,602 220.56	9,899 214.01	8,494 239.25	15,729 242.49	14,552 269.29	13,376 308.07
11,063 244.71	10,372 260.86	8,923 313.26	16,134 260.98	15,000 302.22	13,956 358.63
$11.74	$14.24	$14.72	$12.05	$14.32	$16.43
7.62	6.70	6.31	7.71	7.96	8.50
$0.430	$0.440	$0.540	$0.510	$0.670	$0.770
22,133— 54.8%	32,086— 52.6%	44,359— 51.5%	22,932— 56.2%	34,838— 55.4%	55,075— 56.2%
18,240— 45.2%	28,899— 47.4%	41,738— 48.5%	17,885— 43.8%	28,103— 44.6%	42,863— 43.8%
40,373—100.0%	60,985—100.0%	86,097—100.0%	40,817—100.0%	62,941—100.0%	97,938—100.0%
$9.38	$9.48	$9.53	$9.74	$9.63	$9.63
82 hours	88 hours	87 hours	84 hours	87 hours	85 hours
46 hours	45 hours	44 hours	47 hours	47 hours	47 hours
83 hours	94 hours	89 hours	90 hours	96 hours	109 hours

Review by the Number of Units

TABLE 10 Operations according to number of units in the chain

AVERAGES PER PHARMACY	Under 11 Units (89 Pharmacies)		11 to 25 Units (105 Pharmacies)		26 to 50 Units (321 Pharmacies)		51 to 100 Units (142 Pharmacies)	
Sales								
Prescription	$ 437,755	22.7%	$ 386,673	24.8%	$ 349,899	22.1%	$ 431,404	23.5%
Other	1,487,624	77.3%	1,172,726	75.2%	1,229,842	77.9%	1,403,020	76.5%
Total	$1,925,379	100.0%	$1,559,399	100.0%	$1,579,741	100.0%	$1,834,424	100.0%
Cost of goods sold	1,385,588	72.0%	1,088,180	69.8%	1,117,557	70.7%	1,339,513	73.0%
Gross margin	$ 539,791	28.0%	$ 471,219	30.2%	$ 462,184	29.3%	$ 494,911	27.0%
Expenses								
Manager's salary	$ 30,634	1.6%	$ 33,833	2.2%	$ 25,700	1.6%	$ 22,418	1.2%
Employees' wages	192,755	10.0%	151,523	9.7%	147,463	9.3%	159,837	8.7%
Rent	44,438	2.3%	43,212	2.8%	42,221	2.7%	40,060	2.2%
Utilities (including telephone)	19,952	1.0%	17,328	1.1%	20,277	1.3%	22,428	1.2%
Insurance, licenses, and taxes (except on profit)	35,217	1.8%	21,829	1.4%	23,881	1.5%	29,517	1.6%
Repairs	7,649	0.4%	5,803	0.4%	5,183	0.3%	6,119	0.3%
Advertising	36,562	1.9%	23,533	1.5%	34,319	2.2%	32,443	1.8%
Depreciation (except on buildings)	12,489	0.7%	14,816	1.0%	9,368	0.6%	10,052	0.6%
Supplies	9,600	0.5%	6,809	0.4%	10,397	0.7%	9,614	0.5%
Headquarters fee	67,721	3.5%	46,932	3.0%	48,995	3.1%	63,456	3.5%
All other direct store expenses	44,804	2.3%	33,538	2.1%	41,976	2.7%	18,998	1.0%
		12.1%		10.9%		12.4%		10.5%
Total expenses	$ 501,821	26.0%	$ 399,156	25.6%	$ 409,780	26.0%	$ 414,942	22.6%
Net profit (before taxes)	$ 37,970	2.0%	$ 72,063	4.6%	$ 52,404	3.3%	$ 79,969	4.4%
Warehouse fee*	$ 16,304	3.0%	$ 18,181	6.0%	$ 21,655	2.8%	$ 30,437	2.5%
As a percent of cost of goods sold		4.1%		8.3%		4.0%		3.3%
Value of inventory at cost and as a percent of sales								
Prescription	$ 41,679	9.5%	$ 35,189	9.1%	$ 33,644	9.6%	$ 36,532	8.5%
Other	251,481	16.9%	196,418	16.7%	220,027	17.9%	220,918	15.7%
Total	$ 293,160	15.2%	$ 231,607	14.9%	$ 253,671	16.1%	$ 257,450	14.0%
Annual rate of turnover of inventory		4.9 times		4.9 times		4.5 times		5.3 times
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	796	$549.66	364	$945.48	429	$826.57	393	$1,097.19
Other	9,727	152.94	7,301	151.35	8,545	132.76	8,359	167.84
Total	10,523	182.96	7,665	189.03	8,974	165.93	8,752	209.59
Sales per dollar invested in inventory								
Prescription		$10.50		$10.99		$10.40		$11.81
Other		5.92		5.97		5.59		6.35
Net profit per dollar invested in inventory		$0.130		$0.311		$0.207		$0.311
Number of prescriptions dispensed								
New	23,508	52.8%	21,312	53.5%	18,456	50.1%	21,895	49.0%
Renewed	20,998	47.2%	18,534	46.5%	18,395	49.9%	22,775	51.0%
Total	44,506	100.0%	39,846	100.0%	36,851	100.0%	44,670	100.0%
Prescription charge		$9.84		$9.70		$9.49		$9.66
Number of hours per week								
Pharmacy was open		78 hours		77 hours		82 hours		85 hours
Worked by manager		46 hours		46 hours		46 hours		47 hours
Worked by employed pharmacist(s)		69 hours		56 hours		68 hours		85 hours

*Based on averages of pharmacies that reported all data

The number of stores in a chain firm may affect the operating figures of individual units. Chart 8 shows graphically the relationship of selected operating statistics to the number of units in a chain organization. Over 46% of the stores reporting belong to chain firms that have more than 100 units (Table 10). The influence of this category causes the resulting figures to approximate the overall averages found in Table 1; this similarity should also be considered when these statistics are evaluated. Pharmacies in chains of more than 100 units reported the highest profitability (6.9% of sales). Although this group did not have the highest gross margin, they did record the lowest percentage of total expenses, which was sufficient to permit the best profit performance.

When comparing selected operating data in Table 10 with similar information from last year's DIGEST, it is interesting to observe that net profit improved in each category during 1982. This improvement was the result of either greater gross margin performance or better control of total expenses or a combination of both.

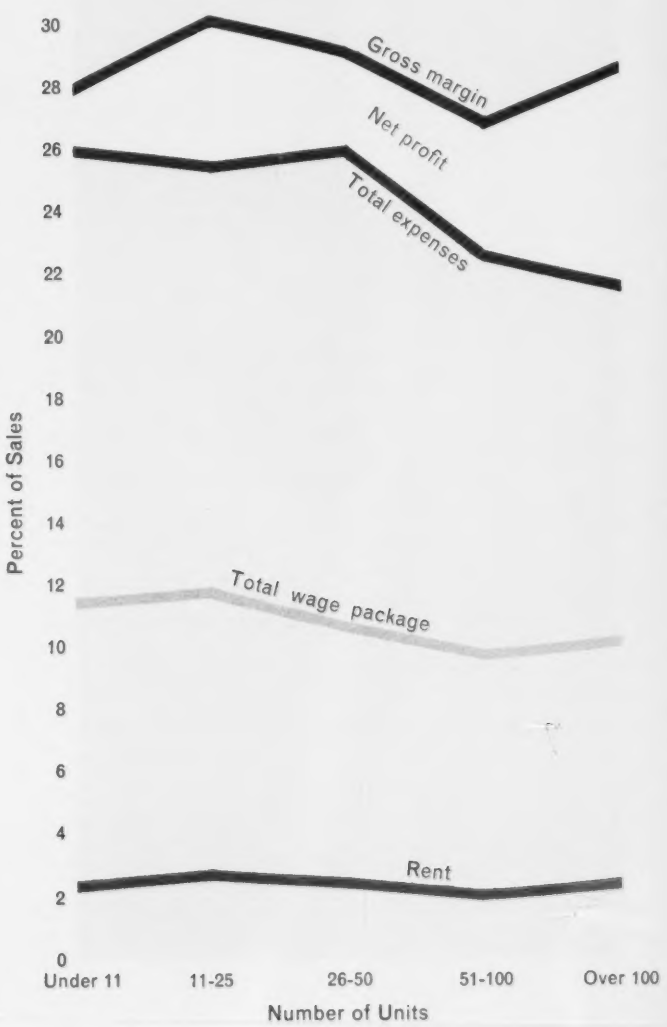
Table 10 presents the operating data of chain units belonging to firms of various sizes. A review of this information indicates that the size of the parent organization in and of itself does not insure the highest gross margin or the lowest expenses, wages, or rent. Rather, the philosophy and the efficiency with which management guides the operation are the deciding factors in profitability.

CHART

8

Selected operating statistics according to number of units in the chain

Over 100 Units (571 Pharmacies)	
$ 462,405—	20.2%
1,826,425—	79.8%
$2,288,830—	100.0%
1,628,913—	71.2%
$ 659,917—	28.8%
$ 34,169—	1.5%
200,644—	8.8%
59,065—	2.6%
23,113—	1.0%
33,778—	1.5%
6,870—	0.3%
33,687—	1.4%
12,815—	0.6%
11,202—	0.5%
57,159—	2.4%
28,814—	1.3%
	9.0%
$ 501,316—	21.9%
$ 158,601—	6.9%
$ 21,686—	1.7%
	2.5%
$ 38,188—	8.3%
266,188—	14.6%
$ 304,376—	13.3%
	5.6 times
sq. ft.	
356	$1,227.53
9,484	230.18
9,840	266.31
	$12.11
	6.86
	$0.521
25,851—	53.8%
22,213—	46.2%
48,064—	100.0%
	$9.62
	80 hours
	46 hours
	75 hours



Rent Review

Chart 9 shows the range of rent percentages for chain drugstores reporting to the NACDS-LILLY DIGEST. About 77% of the chain outlets had a rental expense of less than 3.5% of sales, and 89% of all respondents posted an outlay for rent under 4.5% of total income.

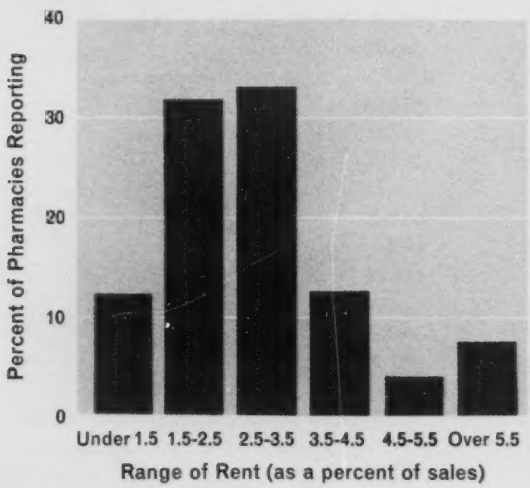
Chain management can evaluate rent according to the particular characteristics of each store. Analysis of rental expenses through the use of a combination of the sections in Table 11 should permit a reasonable comparison.

Section A illustrates the relationship of selected statistics to sales volume. As sales grow, the size of the outlet in square feet rises. Sales productivity also increases when sales volume advances, as indicated by the sales-per-square-foot ratios. Dollarwise, rent per square foot generally becomes more expensive as floor area increases.

Section B expresses rental expenditures according to the percentage of prescription volume as it relates to total sales. As the prescription percentage increases, average sales, pharmacy size in square feet, and average rent show a downward trend. Sales per square foot tend to decline as the prescription percentage increases until prescription revenue contributes over 50% of total income, whereas rent per square foot and rental expense, expressed as a percent of sales, appears to remain relatively constant until this level is attained. At this point, floor space becomes more productive and expensive and, in turn, results in an increase in sales and rent per square foot. These characteristics are indicative of medical office building locations, which usually charge more for space.

CHART 9

Percent of pharmacies reporting various rent percentage ranges



Section C shows the effect of prescription activity on rent. Previously, prescription activity and sales volume were shown to have a positive relationship; therefore, it is understandable that the data in this section are similar in trend to those in Section A.

Section D depicts rental data according to the number of stores in the chain firm. Analysis of rent in this section does not indicate any consistent pattern; therefore, comparisons should be made on an individual basis. This section does show that units belonging to chain organizations of over 100 stores posted the highest average sales and rent per square foot. This may suggest that stores of larger chain firms tend to be located in prime market areas for which higher rentals are charged.

Section E summarizes regional variations that are observed in average sales, store size, and rent. Rent fluctuates, percentagewise, according to geographic location, with the lowest in the Pacific States and the highest in the Mountain States. This is a pattern that has been evident over the past few years. However, when rental expense per square foot is considered, the West South Central States recorded the highest figure, followed by the Mountain States and the Pacific States.

Section F presents selected statistics according to floor size. Once again, larger store area is associated with greater total sales. However, sales and rent per square foot tend to decline as stores acquire more space.

Section G relates rent statistics to store age. As expected, recently opened operations show a lower average sales figure than do established stores, with the result that newer units appear to pay higher rent as a percent of sales than do older pharmacies which have achieved full sales potential. When compared with data for 1981, the operations under ten years old, and, in particular, those in operation less than two years, showed a reduction in overall size. This decrease suggests a trend toward smaller stores. However, since the tabulation may include chain units that have not reported previously, it may be inappropriate to form definite conclusions at this time.

TABLE 11

Rent correlated with various factors

		Average Sales	Size of Pharmacy* (Square Feet)	Sales per Square Foot*	Average Rent	Rent per Square Foot	Rent Percentage
A	**Annual Sales**						
	Under $500,000	$ 351,199	3,771	$ 89.64	$ 21,398	$ 5.67	6.1%
	$500,000 to $750,000	650,548	5,896	110.74	24,588	4.17	3.8%
	$750,000 to $1,000,000	884,615	6,842	129.10	26,388	3.86	3.0%
	$1,000,000 to $1,500,000	1,250,463	7,637	162.92	32,383	4.24	2.6%
	$1,500,000 to $2,000,000	1,726,320	8,689	198.02	45,473	5.23	2.6%
	$2,000,000 to $2,500,000	2,235,061	10,740	209.31	59,890	5.58	2.7%
	$2,500,000 to $3,000,000	2,719,462	10,523	258.56	66,809	6.35	2.5%
	Over $3,000,000	4,434,664	15,081	302.69	99,074	6.57	2.2%
B	**Percentage of Prescription Volume to Total Sales**						
	Under 10%	$3,960,556	15,348	$267.67	$101,530	$ 6.62	2.6%
	10% to 20%	2,502,282	11,229	223.85	63,426	5.65	2.5%
	20% to 30%	1,769,779	8,427	201.83	42,846	5.08	2.4%
	30% to 40%	1,439,825	7,150	175.98	36,693	5.13	2.5%
	40% to 50%	1,253,543	6,216	168.63	32,885	5.29	2.6%
	Over 50%	560,230	2,407	255.35	23,941	9.95	4.3%
C	**Prescriptions Dispensed Daily**						
	Under 50	$ 896,142	7,105	$143.94	$ 35,950	$ 5.06	4.0%
	50 to 75	1,253,612	8,924	183.30	40,080	4.49	3.2%
	75 to 100	1,498,612	8,255	217.85	42,129	5.10	2.8%
	100 to 150	2,025,726	9,239	275.35	49,458	5.35	2.4%
	150 to 200	2,614,735	10,896	339.27	58,477	5.37	2.2%
	Over 200	3,438,014	11,431	507.78	77,835	6.81	2.3%
D	**Number of Units in Chain**						
	Under 11	$1,925,379	10,523	$182.96	$ 44,438	$ 4.22	2.3%
	11 to 25	1,559,399	7,665	189.03	43,212	5.64	2.8%
	26 to 50	1,579,741	8,974	165.93	42,221	4.70	2.7%
	51 to 100	1,834,424	8,752	209.59	40,060	4.58	2.2%
	Over 100	2,288,830	9,840	266.31	59,065	6.00	2.6%
E	**Geographic Location**						
	New England States	$1,814,567	7,751	$235.50	$ 42,034	$ 5.42	2.3%
	Middle Atlantic States	2,219,038	11,125	219.09	56,515	5.08	2.5%
	South Atlantic States	1,736,793	9,463	193.35	46,530	4.92	2.7%
	East North Central States	1,975,985	8,825	226.09	51,428	5.83	2.6%
	West North Central States	1,936,771	11,302	182.24	53,201	4.72	2.7%
	East South Central States	1,196,329	8,182	136.99	35,615	4.35	3.0%
	West South Central States	1,999,727	6,707	224.25	49,957	7.45	2.5%
	Mountain States	2,066,725	9,179	217.94	63,298	6.90	3.1%
	Pacific States	3,228,634	11,167	289.74	67,687	6.06	2.1%
	NACDS-Lilly Digest Average	1,962,217	9,248	213.61	50,049	5.41	2.6%
F	**Floor Size**						
	Under 1,500 square feet	$ 356,229	1,065	$334.61	$ 25,514	$23.96	7.2%
	1,500 to 4,999 square feet	1,056,974	3,588	294.62	22,746	6.34	2.2%
	5,000 to 9,999 square feet	1,524,016	7,345	207.49	38,646	5.26	2.5%
	10,000 to 12,499 square feet	2,346,822	11,085	211.71	56,352	5.08	2.4%
	12,500 to 14,999 square feet	3,029,081	13,715	220.87	79,032	5.76	2.6%
	15,000 to 17,499 square feet	3,545,593	15,984	221.82	83,080	5.20	2.3%
	17,500 to 19,999 square feet	4,500,752	18,541	242.74	117,012	6.31	2.6%
	20,000 to 30,000 square feet	4,576,811	23,080	198.31	111,291	4.82	2.4%
	Over 30,000 square feet	6,318,572	45,192	139.82	147,308	3.26	2.3%
G	**Store Age**						
	Under 2 years	$1,245,892	7,797	$159.79	$ 42,108	$ 5.40	3.4%
	2 to 5 years	1,918,883	9,399	204.15	56,013	5.96	2.9%
	6 to 10 years	2,089,892	10,007	208.84	48,667	4.86	2.3%
	Over 10 years	2,101,936	8,992	233.76	49,929	5.55	2.4%

*Based on averages of pharmacies that reported all data

Pharmacy Location

The operating statistics of chain drugstores are arranged according to location in Table 12. The distribution of pharmacy locations in 1982 was as follows:

Downtown	9.7%
Neighborhood	12.2%
Neighborhood Shopping Center	66.3%
Regional Shopping Center	10.7%
Medical Office Building	1.1%

Within the first four categories, stores in downtown business districts reported the highest gross margin but were unable to generate the greatest net profit because of high total expenses. This was the result of larger expenditures for the total wage package and miscellaneous operating costs, as a percent of sales. Units in the downtown area also recorded the smallest floor area and the fewest prescriptions dispensed, but posted the highest average prescription charge. Neighborhood locations reported the lowest gross margin; however, they also posted the highest average annual sales and turnover rate, contained the largest floor area, were open the most hours, and dispensed the greatest volume of prescriptions. They also reported the lowest miscellaneous operating expenses, as a percent of sales, when compared with any of the other locations.

Pharmacies in regional shopping centers had the highest net profit before taxes and generated the best net profit per dollar of inventory investment. Units in these locations paid the most rent, as a percent of sales.

Although only a small number of medical office building pharmacies responded, their data are included in order to provide chain managements with a general understanding of this kind of operation.

The unique location of medical office building pharmacies influences the operating data of these units. They are characterized by a high gross margin, a large prescription income as a percent of total sales, and a high average prescription charge. However, higher total expenses offset a favorable gross margin, resulting in a low net profit before taxes. Usually small in size, these outlets have very high rental expenses. In this category, rent per square foot was $15.24 in 1982. Percentage-wise, the total wage package is also much higher than the figures usually recorded for chain store operations. Medical office building pharmacies reported the fewest hours open and employed pharmacist hours worked, which is consistent with the relatively low volume of prescription activity in these locations.

AVERAGES PER PHARMACY

- Sales
  - Prescription
  - Other
  - Total
- Cost of goods sold
- Gross margin
- Expenses
  - Manager's salary
  - Employees' wages
  - Rent
  - Utilities (including telephone)
  - Insurance, licenses, and taxes (except on profit)
  - Repairs
  - Advertising
  - Depreciation (except on buildings)
  - Supplies
  - Headquarters fee
  - All other direct store expenses
- Total expenses
- Net profit (before taxes)
- Value of inventory at cost and as a percent of sales
  - Prescription
  - Other
  - Total
- Annual rate*of turnover of inventory
- Size of area and sales per square foot*
  - Prescription
  - Other
  - Total
- Sales per dollar invested in inventory
  - Prescription
  - Other
- Net profit per dollar invested in inventory
- Number of prescriptions dispensed
  - New
  - Renewed
  - Total
- Prescription charge
- Number of hours per week
  - Pharmacy was open
  - Worked by manager
  - Worked by employed pharmacist(s)

*Based on averages of pharmacies that reported all data

TABLE 12

Chain operations according to location

Downtown Business District (116 Pharmacies)	Neighborhood (147 Pharmacies)	Neighborhood Shopping Center (796 Pharmacies)	Regional Shopping Center (128 Pharmacies)	Medical Office Building (13 Pharmacies)
$ 354,168— 21.1%	$ 474,774— 16.6%	$ 428,538— 23.6%	$ 421,148— 18.4%	$256,414— 82.3%
1,324,713— 78.9%	2,379,471— 83.4%	1,390,825— 76.4%	1,862,597— 81.6%	55,073— 17.7%
$1,678,881—100.0%	$2,854,245—100.0%	$1,819,363—100.0%	$2,283,745—100.0%	$311,487—100.0%
1,175,589— 70.0%	2,062,177— 72.2%	1,295,780— 71.2%	1,615,114— 70.7%	190,190— 61.1%
$ 503,292— 30.0%	$ 792,068— 27.8%	$ 523,583— 28.8%	$ 668,631— 29.3%	$121,297— 38.9%
$ 29,170— 1.7%	$ 35,028— 1.2%	$ 29,800— 1.6%	$ 32,453— 1.4%	$ 26,031— 8.4%
165,555— 9.9%	252,693— 8.9%	165,664— 9.1%	195,884— 8.6%	30,486— 9.8%
39,414— 2.3%	67,835— 2.4%	47,136— 2.6%	62,474— 2.7%	18,440— 5.9%
16,508— 1.0%	28,482— 1.0%	21,255— 1.2%	20,856— 0.9%	1,944— 0.6%
30,163— 1.8%	46,862— 1.6%	26,439— 1.5%	31,913— 1.4%	4,826— 1.5%
6,511— 0.3%	9,323— 0.3%	5,725— 0.3%	6,883— 0.3%	490— 0.1%
30,147— 1.8%	41,176— 1.5%	30,747— 1.7%	39,749— 1.8%	1,206— 0.4%
9,588— 0.6%	20,287— 0.7%	10,815— 0.6%	12,151— 0.5%	2,512— 0.8%
7,553— 0.4%	15,636— 0.6%	10,043— 0.6%	8,995— 0.4%	1,591— 0.5%
49,666— 3.0%	59,938— 2.1%	57,247— 3.1%	55,330— 2.4%	11,731— 3.8%
28,074— 1.7%	40,963— 1.4%	31,786— 1.7%	37,914— 1.7%	10,215— 3.3%
10.6%	9.2%	10.7%	9.4%	11.0%
$ 412,349— 24.5%	$ 618,223— 21.7%	$ 436,657— 24.0%	$ 504,602— 22.1%	$109,472— 35.1%
$ 90,943— 5.5%	$ 173,845— 6.1%	$ 86,926— 4.8%	$ 164,029— 7.2%	$ 11,825— 3.8%
$ 32,620— 9.2%	$ 39,354— 8.3%	$ 37,532— 8.3%	$ 35,044— 8.3%	$ 31,417— 12.3%
201,030— 15.2%	327,711— 13.8%	232,383— 10.7%	268,960— 14.4%	24,366— 44.2%
$ 233,650— 13.9%	$ 367,065— 12.9%	$ 269,915— 14.8%	$ 304,004— 13.3%	$ 55,783— 17.9%
5.2 times	5.8 times	5.0 times	5.6 times	3.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
376 $897.28	517 $884.78	409 $989.01	459 $887.41	476 $448.44
6,285 209.11	11,237 223.51	8,871 157.71	8,984 208.47	734 81.24
6,661 281.14	11,754 285.56	9,280 260.52	9,443 300.55	1,210 334.74
$10.86	$12.06	$11.42	$12.02	$8.16
6.59	7.26	5.99	6.93	2.26
$0.389	$0.474	$0.322	$0.540	$0.212
18,204— 50.2%	26,773— 54.4%	23,333— 52.2%	22,801— 52.4%	13,884— 55.2%
18,048— 49.8%	22,446— 45.6%	21,330— 47.8%	20,738— 47.6%	11,269— 44.8%
36,252—100.0%	49,219—100.0%	44,663—100.0%	43,539—100.0%	25,153—100.0%
$9.77	$9.65	$9.59	$9.67	$10.19
75 hours	83 hours	82 hours	78 hours	51 hours
46 hours	47 hours	46 hours	45 hours	44 hours
68 hours	90 hours	70 hours	76 hours	26 hours

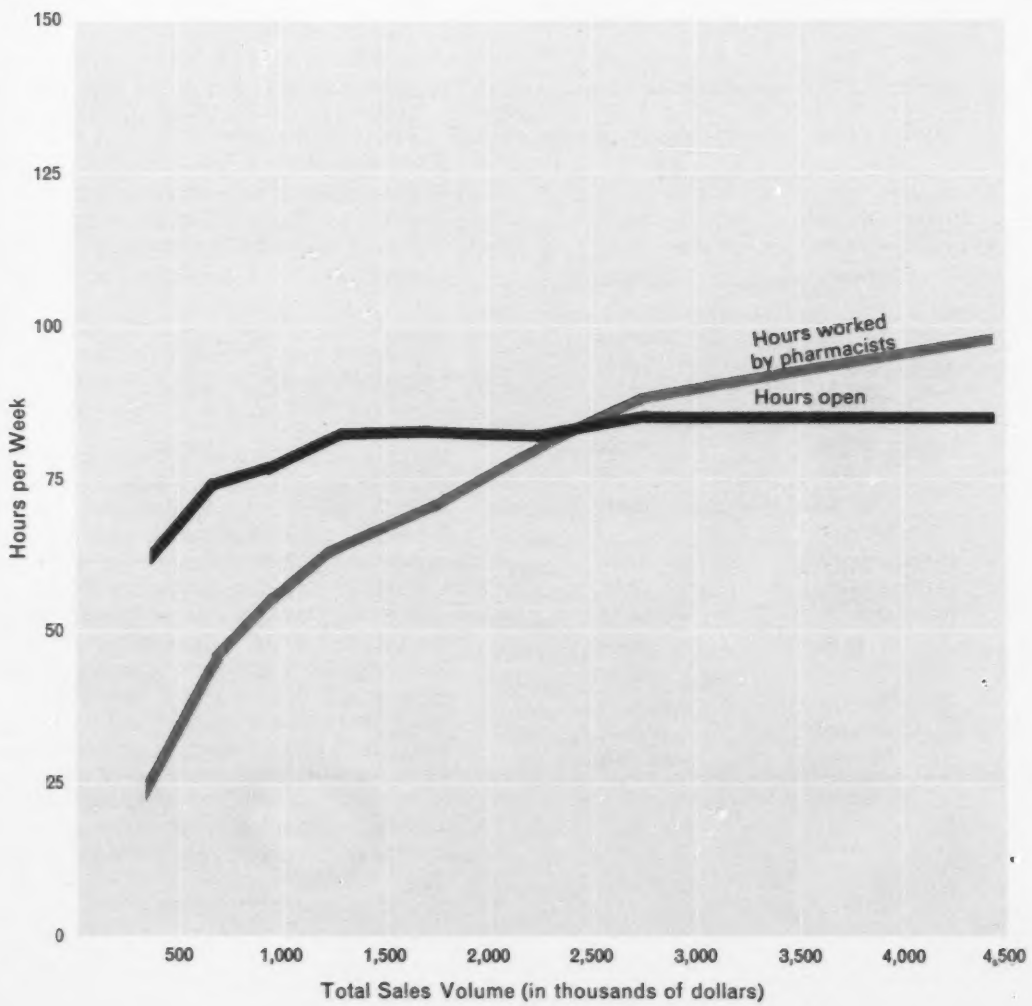
Pharmacy Hours

The numbers of hours chain stores are open per week are arranged according to annual sales volume in Chart 10. Pharmacies with sales volume in excess of $2,500,000 were open the most hours—85. The trend toward longer business hours, as sales volume increases, was noted again in 1982 and is consistent with similar trends observed in past DIGESTS. Interestingly, stores with over $3,000,000 in sales income were open about the same number of hours as units with approximately half that sales volume. When hours-open data for 1982 are compared with similar information for the previous year, there appears to be a decrease in weekly hours across all sales classes. This reduction was probably prompted by the economics involved when a store's operating hours extended beyond what may be considered as "reasonable and financially practical" for the marketplace.

As discussed earlier, additional prescription activity is accompanied by a rise in total sales and in employed pharmacist hours. The data in Chart 10 confirm this, since the number of hours worked by employed pharmacists peaked at 98 hours in pharmacies with sales in excess of $3,000,000 (down from 105 hours in 1981). Hours worked per week by employed pharmacists did not exceed hours open until sales volume reached $2,500,000 to $3,000,000 annually. Clearly, in lower-volume units, pharmacist-managers spend most of their hours in the prescription department. However, as sales and prescription activity increase, pharmacist-managers devote more and more of their time to managerial tasks although they may "fill in" as staff pharmacists during periods of greatest prescription activity. As expected, the reduction in hours open per week mentioned earlier was associated with a corresponding decline in employee-pharmacist hours worked.

CHART 10

Pharmacy hours according to sales volume



Geographic Review

When an individual unit's operating figures are compared with the averages published in the DIGEST, factors such as the cost of living, population density, ratio of pharmacies to population, buying power, pharmacy manpower, and governmental health programs should also be considered. To help facilitate a more in-depth evaluation of any chain drugstore's figures, it is suggested that Tables 13 and 14, which summarize the differences in operating statistics according to geographic region, also be part of the evaluation process. The geographic breakdowns are consistent with those of the U.S. Department of Commerce and permit comparisons with published regional economic statistics.

During 1982, the Pacific States again reported the highest average annual sales and prescription charge (Table 13). Stores in this area also recorded the lowest percent of prescription sales to total sales but had the highest figure for sales per square foot of any region.

Chain drugstores located in the Middle Atlantic Region reported the highest number of prescriptions dispensed, whereas units in the East South Central States had the lowest. However, outlets in this region recorded the largest percent of prescription sales to total sales, resulting in a relatively high gross margin figure as a percent of sales. Stores in the East South Central States also reported the lowest average annual sales.

Pharmacy units in the West South Central States had the smallest floor area and were open for business the fewest hours. Their employee pharmacists also worked the lowest number of hours. Stores in the West North Central Region reported the largest floor space and most employee pharmacist hours. During 1982, the New England States posted the longest business hours per week and the lowest average prescription charge.

Net profit before taxes ranged from a low of 2.9% of sales in the New England Region to a high of 8.0% in the Pacific States. It is interesting to note that the South Atlantic States showed the greatest improvement in net profit (up 4.4% to 6.2%) when compared with 1981 data, the result of a significantly lower total expenses figure which more than offset the decline in gross margin.

Table 14 presents operating data of the various regions, which may be used for comparative purposes. When individual store evaluations are made, the "Heart of the NACDS-LILLY DIGEST" is recommended as the basic reference source but should be supplemented by a review of special tabulations, such as the "Geographic Review" section.

TABLE 13

Geographic summary of selected statistics

	Total Sales (in millions of dollars)	Number of Prescriptions (in thousands)	Percent of Prescription Sales to Total Sales	Net Profit (percent of sales)	Average Prescription Charge	Hours Open Weekly
New England States	$1.8	43.8	22.1%	2.9%	$ 9.16	84
Middle Atlantic States	2.2	57.3	24.5%	6.1%	9.50	83
South Atlantic States	1.7	46.4	24.8%	6.2%	9.27	76
East North Central States	2.0	43.6	21.4%	6.1%	9.72	82
West North Central States	1.9	36.9	19.4%	4.1%	10.21	78
East South Central States	1.2	35.8	28.2%	3.5%	9.42	81
West South Central States	2.0	44.2	20.9%	5.4%	9.47	71
Mountain States	2.1	38.5	19.3%	4.0%	10.34	81
Pacific States	3.2	38.8	12.5%	8.0%	10.43	78
U.S. Average	2.0	43.8	21.5%	5.4%	9.62	81

TABLE 14 Chain operations according to geographic location

AVERAGES PER PHARMACY	New England States (156 Pharmacies)		Middle Atlantic States (205 Pharmacies)		South Atlantic States (52 Pharmacies)		East North Central States (251 Pharmacies)	
Sales								
Prescription	$ 401,725	22.1%	$ 544,467	24.5%	$ 430,431	24.8%	$ 423,772	21.4%
Other	1,412,842	77.9%	1,674,571	75.5%	1,306,362	75.2%	1,552,213	78.6%
Total	$1,814,567	100.0%	$2,219,038	100.0%	$1,736,793	100.0%	$1,975,985	100.0%
Cost of goods sold	1,297,504	71.5%	1,568,458	70.7%	1,216,334	70.0%	1,414,179	71.6%
Gross margin	$ 517,063	28.5%	$ 650,580	29.3%	$ 520,459	30.0%	$ 561,806	28.4%
Expenses								
Manager's salary	$ 22,635	1.2%	$ 28,423	1.3%	$ 32,125	1.8%	$ 35,283	1.8%
Employees' wages	169,003	9.3%	169,144	7.6%	155,569	9.0%	167,123	8.5%
Rent	42,034	2.3%	56,515	2.5%	46,530	2.7%	51,428	2.6%
Utilities (including telephone)	21,613	1.2%	26,338	1.2%	13,952	0.8%	19,183	1.0%
Insurance, licenses, and taxes (except on profit)	24,466	1.4%	27,789	1.3%	24,491	1.4%	29,243	1.4%
Repairs	7,230	0.4%	8,576	0.4%	5,821	0.3%	7,121	0.3%
Advertising	32,377	1.8%	45,947	2.0%	38,103	2.2%	31,348	1.6%
Depreciation (except on buildings)	16,424	0.9%	11,143	0.5%	8,436	0.5%	10,059	0.5%
Supplies	12,266	0.7%	11,707	0.5%	7,413	0.4%	7,965	0.4%
Headquarters fee	80,427	4.4%	100,065	4.5%	42,843	2.5%	58,727	3.0%
All other direct store expenses	36,188	2.0%	30,214	1.4%	38,184	2.2%	24,051	1.2%
		12.8%		11.8%		10.3%		9.4%
Total expenses	$ 464,663	25.6%	$ 515,861	23.2%	$ 413,467	23.8%	$ 441,531	22.3%
Net profit (before taxes)	$ 52,400	2.9%	$ 134,719	6.1%	$ 106,992	6.2%	$ 120,275	6.1%
Warehouse fee*	$ 21,701	2.3%	$ 39,598	2.2%	$ 23,295	2.5%	$ 24,015	2.1%
As a percent of cost of goods sold		3.3%		2.9%		3.5%		3.0%
Value of inventory at cost and as a percent of sales								
Prescription	$ 35,689	8.9%	$ 41,487	7.6%	$ 37,968	8.8%	$ 36,113	8.5%
Other	249,774	17.7%	265,866	15.9%	208,188	15.9%	211,162	13.6%
Total	$ 285,463	15.7%	$ 307,353	13.9%	$ 246,156	14.2%	$ 247,275	12.5%
Annual rate of turnover of inventory		4.8 times		5.4 times		5.0 times		6.0 times
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	468	$863.44	382	$1,223.84	409	$929.99	415	$1,012.93
Other	7,283	195.17	10,743	183.34	9,054	160.06	8,410	187.23
Total	7,751	235.50	11,125	219.09	9,463	193.35	8,825	226.09
Sales per dollar invested in inventory								
Prescription		$11.26		$13.12		$11.34		$11.73
Other		5.66		6.30		6.27		7.35
Net profit per dollar invested in inventory		$0.184		$0.438		$0.435		$0.486
Number of prescriptions dispensed								
New	21,878	49.9%	28,821	50.3%	24,572	52.9%	22,859	52.4%
Renewed	21,966	50.1%	28,471	49.7%	21,870	47.1%	20,735	47.6%
Total	43,844	100.0%	57,292	100.0%	46,442	100.0%	43,594	100.0%
Prescription charge		$9.16		$9.50		$9.27		$9.72
Number of hours per week								
Pharmacy was open		84 hours		83 hours		76 hours		82 hours
Worked by manager		47 hours		44 hours		46 hours		46 hours
Worked by employed pharmacist(s)		77 hours		64 hours		71 hours		75 hours

*Based on averages of pharmacies that reported all data

West North Central States (125 Pharmacies)	East South Central States (182 Pharmacies)	West South Central States (135 Pharmacies)	Mountain States (33 Pharmacies)	Pacific States (89 Pharmacies)	U.S. Average (1,228 Pharmacies)
$ 376,615— 19.4%	$ 337,384— 28.2%	$ 418,463— 20.9%	$ 398,671— 19.3%	$ 404,583— 12.5%	$ 421,149— 21.5%
1,560,156— 80.6%	858,945— 71.8%	1,581,264— 79.1%	1,668,054— 80.7%	2,824,051— 87.5%	1,541,068— 78.5%
$1,936,771—100.0%	$1,196,329—100.0%	$1,999,727—100.0%	$2,066,725—100.0%	$3,228,634—100.0%	$1,962,217—100.0%
1,371,434— 70.8%	844,155— 70.6%	1,453,238— 72.7%	1,444,319— 69.9%	2,309,711— 71.5%	1,397,909— 71.2%
$ 565,337— 29.2%	$ 352,174— 29.4%	$ 546,489— 27.3%	$ 622,406— 30.1%	$ 918,923— 28.5%	$ 564,308— 28.8%
$ 30,893— 1.6%	$ 26,851— 2.2%	$ 31,585— 1.6%	$ 37,204— 1.8%	$ 34,810— 1.1%	$ 30,312— 1.5%
181,230— 9.4%	121,934— 10.2%	208,574— 10.4%	226,769— 11.0%	293,284— 9.1%	177,252— 9.0%
53,201— 2.7%	35,615— 3.0%	49,957— 2.5%	63,298— 3.1%	67,687— 2.1%	50,049— 2.6%
18,495— 1.0%	19,715— 1.6%	25,705— 1.3%	19,902— 1.0%	24,140— 0.7%	21,569— 1.1%
30,600— 1.6%	20,171— 1.7%	34,307— 1.7%	36,716— 1.8%	57,351— 1.8%	29,780— 1.5%
6,601— 0.3%	3,366— 0.3%	1,267— 0.1%	13,377— 0.6%	8,082— 0.3%	6,307— 0.3%
38,691— 2.0%	24,787— 2.1%	7,596— 0.3%	43,563— 2.1%	50,042— 1.5%	33,049— 1.7%
12,805— 0.7%	5,538— 0.4%	13,922— 0.7%	9,959— 0.5%	20,141— 0.6%	11,742— 0.6%
8,877— 0.4%	6,973— 0.6%	15,002— 0.8%	5,100— 0.2%	15,706— 0.5%	10,316— 0.5%
55,925— 2.9%	24,205— 2.0%	14,161— 0.7%	40,537— 2.0%	41,090— 1.3%	55,644— 2.9%
47,722— 2.5%	21,414— 1.8%	35,692— 1.8%	42,288— 2.0%	47,139— 1.5%	32,682— 1.7%
11.4%	10.5%	7.4%	10.2%	8.2%	10.3%
$ 485,040— 25.1%	$ 310,569— 25.9%	$ 437,768— 21.9%	$ 538,713— 26.1%	$ 659,472— 20.5%	$ 458,702— 23.4%
$ 80,297— 4.1%	$ 41,605— 3.5%	$ 108,721— 5.4%	$ 83,693— 4.0%	$ 259,451— 8.0%	$ 105,606— 5.4%
$ 17,280— 1.2%	$ 24,732— 4.5%	$ 12,547— 1.1%	$ 12,637— 1.2%	$ 10,310— 2.5%	$ 23,857— 2.3%
1.7%	6.4%	1.5%	1.7%	3.6%	3.2%
$ 38,017— 10.1%	$ 34,093— 10.1%	$ 37,248— 8.9%	$ 36,714— 9.2%	$ 32,461— 8.0%	$ 36,805— 8.7%
249,959— 16.0%	189,378— 22.0%	232,120— 14.7%	276,426— 16.6%	376,781— 13.3%	241,856— 15.7%
$ 287,976— 14.9%	$ 223,471— 18.7%	$ 269,368— 13.5%	$ 313,140— 15.2%	$ 409,242— 12.7%	$ 278,661— 14.2%
4.8 times	3.8 times	5.5 times	4.9 times	5.7 times	5.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
501 $765.92	410 $836.86	397 $1,092.06	472 $795.81	357 $1,137.12	426 $944.39
10,801 155.18	7,772 100.07	6,310 169.66	8,707 186.60	10,810 261.79	8,822 178.35
11,302 182.24	8,182 136.99	6,707 224.25	9,179 217.94	11,167 289.74	9,248 213.61
$9.91	$9.90	$11.23	$10.86	$12.46	$11.44
6.24	4.54	6.81	6.03	7.50	6.37
$0.279	$0.186	$0.404	$0.267	$0.634	$0.379
17,566— 47.6%	19,031— 53.1%	25,246— 57.1%	20,640— 53.6%	22,908— 59.1%	22,903— 52.3%
19,325— 52.4%	16,785— 46.9%	18,955— 42.9%	17,903— 46.4%	15,866— 40.9%	20,877— 47.7%
36,891—100.0%	35,816—100.0%	44,201—100.0%	38,543—100.0%	38,774—100.0%	43,780—100.0%
$10.21	$9.42	$9.47	$10.34	$10.43	$9.62
78 hours	81 hours	71 hours	81 hours	78 hours	81 hours
47 hours	47 hours	46 hours	47 hours	44 hours	46 hours
85 hours	61 hours	51 hours	81 hours	81 hours	72 hours

Typical Purchase Mix

Table 15 shows selected operating data of the typical chain pharmacy unit based on the most often reported purchase mix. This mix was about 15% direct, 25% wholesale, and 60% warehouse. Since ranges were used, it is possible that the warehouse segment is slightly understated and may be as high as 70%, with corresponding decreases in the wholesale and direct portions.

The operating statistics derived from this characteristic purchase mix are very close to the U.S. averages. It is clear that expense control receives primary attention and is responsible for a net profit of 5.1% of sales.

Chain managements who commit to warehouse distribution tend to maximize unit purchases through the facility. This philosophy increases control over store inventories, promotes efficiency in warehouse operations, and allows centralized purchasing economies. On the other hand, restricting units to warehouse purchases may limit the flexibility stores need to meet customer demands quickly. Therefore, it seems unlikely that warehouses will ever assume 100 percent of stores' purchase needs and also unlikely that the wholesaler's role of rapid service will ever be completely dismissed.

A second tabulation shows data in the top warehouse category. These stores probably order upward of 85% of their needs from their corporate warehouse. Comparison with the most commonly reported purchase mix shows that "total" warehouse units generate a lower gross margin and, therefore, a lower net profit in otherwise comparable operations. This difference could be reflected in the warehouse fee charged units by the facility and may be the result of treating the warehouse as a profit center.

It should be noted that these are successful examples of every purchasing style—direct, wholesale, and warehouse. Data do not clearly suggest that one mix is more advantageous than another. The purchasing decision by chain managements seems to be rooted more in control philosophy and historical distribution methods than in store-level operational statistics.

TABLE 15 Chain operations according to purchase sources

AVERAGES PER PHARMACY	Typical Chain Pharmacy	75% to 100% Ordered from Warehouse (278 Pharmacies)
Prescription sales	$ 426,591— 22.7%	$ 411,189— 22.4%
Total sales (including prescription sales)	$1,882,753—100.0%	$1,832,594—100.0%
Cost of goods sold	1,338,094— 71.1%	1,309,009— 71.4%
Gross margin	$ 544,659— 28.9%	$ 523,585— 28.6%
Total wage package	199,094— 10.6%	222,746— 12.1%
Headquarters fee	60,554— 3.2%	29,530— 1.6%
Total expenses (including total wage package)	448,501— 23.8%	435,018— 23.8%
Net profit	$ 96,158— 5.1%	$ 88,567— 4.8%
Total number of prescriptions dispensed	44,702	42,881
Value of inventory at cost and as a percent of sales		
Prescription	$ 36,845— 8.6%	$ 36,617— 8.9%
Other	234,982— 16.1%	210,241— 14.8%
Total	$ 271,827— 14.4%	$ 246,858— 13.5%
Annual rate of turnover of inventory	4.9 times	5.4 times
Sales per dollar invested in inventory		
Prescription	$11.58	$11.23
Other	6.20	6.76
Total floor area*	9,122 sq. ft.	8,118 sq. ft.
Sales per square foot	$206.40	$225.74
Number of hours pharmacy was open per week	82 hours	84 hours

*Based on averages of pharmacies that reported all data

Two-Year Comparison of the Same Pharmacies

A summary of the selected operating data of 727 chain outlets that reported for both 1981 and 1982 is shown in Table 16. The column on the right is a similar arrangement of financial information from 501 units that sent data to the NACDS-LILLY DIGEST for the first time.

A review of the two-year data shows that the cost of goods sold declined as a percent of sales, which sent gross margin upward. Total expenses were also lower, with the result that net profit improved significantly. In fact, the gain in net profit was the largest increase, both in dollars and as a percent of sales, in NACDS-LILLY DIGEST history. The average number of prescriptions dispensed grew over 3% and also established a new DIGEST record. Pharmacies that have responded for two years also showed an increase (14.8%) in the average prescription charge.

Chain drugstores that did not submit figures previously recorded a lower sales volume and gross margin. Total expenses, however, were below those of the two-year group and, as such, were sufficient to generate a higher net profit before taxes as a percent of sales. Fewer prescriptions were dispensed by this category of participants, and their average prescription charge was somewhat higher than that of the two-year respondents.

TABLE 16 Summary of operating figures in pharmacies reporting two years and one year

AVERAGES PER PHARMACY	727 Pharmacies Reporting Both Years 1982	1981	Amount and Percent of Change	501 Pharmacies Reporting Only in 1982
Sales				
Prescription	$ 439,729— 21.1%	$ 371,267— 19.2%	+$ 68,462—18.4%	$ 394,189— 22.1%
Other	1,646,377— 78.9%	1,559,373— 80.8%	+$ 87,004— 5.6%	1,388,254— 77.9%
Total	$2,086,106—100.0%	$1,930,640—100.0%	+$155,466— 8.1%	$1,782,443—100.0%
Cost of goods sold	1,481,019— 71.0%	1,382,579— 71.6%	+$ 98,440— 7.1%	1,277,308— 71.7%
Gross margin	$ 605,087— 29.0%	$ 548,061— 28.4%	+$ 57,026—10.4%	$ 505,135— 28.3%
Expenses				
Manager's salary	$ 28,917— 1.4%	$ 27,674— 1.4%	+$ 1,243— 4.5%	$ 32,336— 1.8%
Employees' wages	193,530— 9.3%	182,068— 9.4%	+$ 11,462— 6.3%	153,632— 8.6%
Rent	54,436— 2.6%	51,472— 2.7%	+$ 2,964— 5.8%	43,682— 2.5%
Other operating costs	218,467— 10.4%	201,351— 10.5%	+$ 17,116— 8.5%	175,872— 9.9%
Total expenses	$ 495,350— 23.7%	$ 462,565— 24.0%	+$ 32,785— 7.1%	$ 405,522— 22.8%
Net profit (before taxes)	$ 109,737— 5.3%	$ 85,496— 4.4%	+$ 24,241—28.4%	$ 99,613— 5.5%
Number of prescriptions	46,080	44,661	+ 1,419— 3.2%	40,442
Prescription charge	$9.54	$8.31	+$ 1.23—14.8%	$9.75

In Conclusion

This edition of the NACDS-LILLY DIGEST again reflects a number of long-recognized trends in the chain drugstore industry—total sales continued to rise and the cost of goods sold retreated somewhat as gross margin gained. Total expenses also declined, resulting in the best net profit performance ever.

This record is worthy of note in that it allows chain managements to generate funds internally to finance future expansion. Retained income is particularly valuable in view of the fact that borrowed capital is still quite expensive. Certainly, their efforts appeared to be rewarded during 1982, because the average chain unit's profitability was exceptional.

Since operating costs are expected to increase in the future, it will be important for chain managements to continue to be diligent in their efforts to monitor and control operating costs so that desired profit goals will be achieved. It is hoped that the DIGEST will provide one tool that can be used effectively by chain managements in their review process.

For immediate submission to the NACDS-Lilly Analysis Service, forms are now available upon request from:

Lilly Analysis Service
National Association of Chain Drug Stores, Inc.
P.O. Box 1417-D49, Alexandria, Virginia 22313

NACDS headquarters will again send out forms early in 1984 for participation in the 1984 NACDS-LILLY DIGEST.